

**Financial Statements and Report of Independent
Certified Public Accountants**

Children's Miracle Network and Subsidiaries

August 31, 2010 and 2009

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Report of Independent Certified Public Accountants

Executive Committee and Board of Trustees
Children's Miracle Network and Subsidiaries

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We have audited the accompanying consolidated statements of financial position of Children's Miracle Network and subsidiaries (the Organization) as of August 31, 2010 and 2009, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of August 31, 2010 and 2009, and its changes in net assets, its functional expenses and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Grant Thornton LLP".

Salt Lake City, Utah
December 8, 2010

FINANCIAL STATEMENTS

Children's Miracle Network
and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

August 31,

ASSETS

	2010	2009
ASSETS		
Cash and cash equivalents		
Unrestricted	\$ 12,615,838	\$ 15,872,873
Restricted	16,642,074	24,019,491
Investments		
Unrestricted	10,738,784	9,848,097
Accounts receivable, net of allowance for doubtful accounts of \$53,719 in 2010 and \$55,612 in 2009	2,108,519	2,085,739
Contributions receivable	697,481	207,305
Prepaid expenses and other current assets	671,114	740,733
Property, furniture and equipment, net	9,052,902	9,310,291
Non-current contributions receivable, net of allowance for doubtful accounts of \$20,919 in 2010 and \$2,092 in 2009	243,426	419,946
Other non-current assets	182,080	193,817
Total assets	\$ 52,952,218	\$ 62,698,292

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 2,270,813	\$ 4,480,153
Accrued liabilities	435,244	556,571
Payable to participating hospitals	15,765,097	23,137,220
Payable to partners	876,977	882,271
Deferred revenue	7,389,035	9,129,157
Notes payable - current portion	145,707	139,906
Notes payable	4,617,813	4,763,520
Other long-term liabilities	-	76,440
Total liabilities	31,500,686	43,165,238
NET ASSETS		
Unrestricted	18,354,541	16,936,290
Temporarily restricted	1,032,092	609,830
Permanently restricted	2,064,899	1,986,934
Total net assets	21,451,532	19,533,054
Total liabilities and net assets	\$ 52,952,218	\$ 62,698,292

The accompanying notes are an integral part of these financial statements

Children's Miracle Network
and Subsidiaries

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended August 31, 2010

	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Revenues:				
Hospital fees	\$ 17,410,455	\$ -	\$ -	\$ 17,410,455
Direct mail	3,556,688	-	-	3,556,688
Licensing fees	446,745	-	-	446,745
Production underwriting gifts	6,963,573	471,346	-	7,434,919
Donations-in-kind	470,869	517,428	-	988,297
Campaign	2,481,249	-	-	2,481,249
Ancillary revenue	854,405	-	-	854,405
Total revenues	<u>32,183,984</u>	<u>988,774</u>	<u>-</u>	<u>33,172,758</u>
Other revenue:				
Endowments, major gifts, and grants	24,447	-	165,825	190,272
Gain on sale of fixed assets, net	1,097	-	-	1,097
Interest and dividend income	370,962	29,458	-	400,420
Net realized (loss)/gain on investments	(70,978)	7,062	-	(63,916)
Net unrealized gain on investments	494,891	6,798	-	501,689
Donor recharacterization of gift	83,676	-	(83,676)	-
Net assets released from restrictions	609,830	(609,830)	-	-
Total revenues, gains and other support	<u>33,697,909</u>	<u>422,262</u>	<u>82,149</u>	<u>34,202,320</u>
Expenses and losses:				
Program services				
Public education and awareness	12,508,151	-	-	12,508,151
Fund raising program services	16,894,046	-	-	16,894,046
Total program services	<u>29,402,197</u>	<u>-</u>	<u>-</u>	<u>29,402,197</u>
Support services				
Fund raising	430,135	-	-	430,135
Management and general	2,542,852	-	-	2,542,852
Total support services	<u>2,972,987</u>	<u>-</u>	<u>-</u>	<u>2,972,987</u>
Total expenses and losses	<u>32,375,184</u>	<u>-</u>	<u>-</u>	<u>32,375,184</u>
Other loss/(gain)	(95,526)	-	4,184	(91,342)
Change in net assets	1,418,251	422,262	77,965	1,918,478
Net assets, beginning of year	16,936,290	609,830	1,986,934	19,533,054
Net assets, end of year	<u>\$ 18,354,541</u>	<u>\$ 1,032,092</u>	<u>\$ 2,064,899</u>	<u>\$ 21,451,532</u>

The accompanying notes are an integral part of this financial statement

Children's Miracle Network
and Subsidiaries

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended August 31, 2009

	Unrestricted	Temporarily restricted	Permanently restricted	Totals
Revenues:				
Hospital fees	\$ 16,936,904	\$ -	\$ -	\$ 16,936,904
Direct mail	3,373,539	-	-	3,373,539
Licensing fees	465,214	-	-	465,214
Production underwriting gifts	10,196,222	21,449	-	10,217,671
Donations-in-kind	1,262,799	588,381	-	1,851,180
Campaign	2,645,383	-	-	2,645,383
Ancillary revenue	1,297,167	-	-	1,297,167
Total revenues	<u>36,177,228</u>	<u>609,830</u>	<u>-</u>	<u>36,787,058</u>
Other revenue:				
Endowments, major gifts, and grants	10,500	-	814,945	825,445
Gain on sale of fixed assets, net	13,384	-	-	13,384
Interest and dividend income	659,415	23,291	-	682,706
Net realized loss on investments	(616,435)	-	-	(616,435)
Net unrealized loss on investments	(568,101)	(23,291)	-	(591,392)
Net assets released from restrictions	456,530	(456,530)	-	-
Total revenues, gains and other support	<u>36,132,521</u>	<u>153,300</u>	<u>814,945</u>	<u>37,100,766</u>
Expenses and losses:				
Program services				
Public education and awareness	12,131,846	-	-	12,131,846
Fund raising program services	20,483,124	-	-	20,483,124
Total program services	<u>32,614,970</u>	<u>-</u>	<u>-</u>	<u>32,614,970</u>
Support services				
Fund raising	1,282,211	-	-	1,282,211
Management and general	2,841,709	-	-	2,841,709
Total support services	<u>4,123,920</u>	<u>-</u>	<u>-</u>	<u>4,123,920</u>
Total expenses and losses	<u>36,738,890</u>	<u>-</u>	<u>-</u>	<u>36,738,890</u>
Other loss	2,631	-	53,082	55,713
Change in net assets	(609,000)	153,300	761,863	306,163
Net assets, beginning of year	17,545,290	456,530	1,225,071	19,226,891
Net assets, end of year	<u>\$ 16,936,290</u>	<u>\$ 609,830</u>	<u>\$ 1,986,934</u>	<u>\$ 19,533,054</u>

The accompanying notes are an integral part of this financial statement

Children's Miracle Network
and Subsidiaries

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended August 31, 2010

	Program services		Support services		Totals
	Public education and awareness	Fund raising program services	Fund raising	Management and general	
Travel	\$ 1,053,388	\$ 1,756,736	\$ 42,982	\$ 148,390	\$ 3,001,496
Employment costs	2,821,001	6,970,125	312,016	1,516,660	11,619,802
Equipment rental	6,572	21,472	153	1,784	29,981
Contract services	745,563	1,298,312	19,725	97,638	2,161,238
Advertising and promotion	7,207,829	256,131	3,178	6,412	7,473,550
Printing and photography	82,247	97,483	1,135	4,622	185,487
Corporate campaign	-	2,400,302	-	-	2,400,302
Sponsorship support	173,739	789,549	13,642	14,476	991,406
Program support	-	2,425,573	-	-	2,425,573
Occupancy and utilities	70,884	131,860	7,968	21,349	232,061
Telephone	58,964	158,509	3,019	12,742	233,234
Depreciation	759	47,850	379	380,181	429,169
Professional fees	85,758	150,286	11,643	253,355	501,042
Insurance	20,472	40,532	2,482	15,376	78,862
Interest	55,852	116,173	6,702	44,682	223,409
Licenses and fees	9,631	29,449	298	14,636	54,014
Postage and shipping	28,039	75,790	1,757	7,853	113,439
Supplies	83,902	122,429	2,800	13,270	222,401
Unrelated business income tax benefit	-	(1,297)	-	(11,672)	(12,969)
Other	3,551	6,782	256	1,098	11,687
	<u>\$ 12,508,151</u>	<u>\$ 16,894,046</u>	<u>\$ 430,135</u>	<u>\$ 2,542,852</u>	<u>\$ 32,375,184</u>

The accompanying notes are an integral part of this financial statement

Children's Miracle Network
and Subsidiaries

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended August 31, 2009

	Program services		Support services		Totals
	Public education and awareness	Fund raising program services	Fund raising	Management and general	
Travel	\$ 2,030,672	\$ 1,888,020	\$ 138,613	\$ 176,451	\$ 4,233,756
Employment costs	3,526,054	6,729,223	709,682	1,438,210	12,403,169
Equipment rental	10,742	32,026	386	2,040	45,194
Contract services	1,778,357	1,748,802	111,552	247,852	3,886,563
Advertising and promotion	3,477,148	3,412,226	205,441	242,474	7,337,289
Printing and photography	59,814	95,322	3,248	9,455	167,839
Corporate campaign	-	2,484,909	-	-	2,484,909
Sponsorship support	394,686	1,061,432	59,321	6,109	1,521,548
Program support	-	2,272,080	-	-	2,272,080
Occupancy and utilities	179,404	101,567	7,970	42,833	331,774
Telephone	68,560	160,276	11,567	23,235	263,638
Depreciation	53	25,284	79	205,632	231,048
Professional fees	185,822	139,490	13,040	323,675	662,027
Insurance	56,501	31,438	2,007	13,680	103,626
Interest	35,251	11,940	1,137	8,528	56,856
Licenses and fees	24,687	23,377	1,223	21,151	70,438
Postage and shipping	38,704	93,203	6,833	9,195	147,935
Supplies	262,940	163,917	9,868	47,778	484,503
Unrelated business income tax	-	-	-	19,318	19,318
Other	2,451	8,592	244	4,093	15,380
	<u>\$ 12,131,846</u>	<u>\$ 20,483,124</u>	<u>\$ 1,282,211</u>	<u>\$ 2,841,709</u>	<u>\$ 36,738,890</u>

The accompanying notes are an integral part of this financial statement

Children's Miracle Network
and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended August 31,

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Change in net assets	\$ 1,918,478	\$ 306,163
Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities		
Depreciation	429,169	231,048
Unrealized loss/(gain) on investments	(501,689)	591,392
Realized loss on investments	63,916	616,435
Gain on sale of fixed assets	(1,097)	(13,384)
Investment management fees	-	8,726
Proceeds from endowment contributions	(251,514)	(672,048)
Other loss/(gain)	(91,342)	55,713
Changes in assets and liabilities		
Restricted cash	7,549,679	(6,525,723)
Accounts and contributions receivable	(498,272)	(276,571)
Prepaid expenses and other current assets	69,821	(102,429)
Other non-current assets	188,256	(174,255)
Accounts payable	(2,243,007)	1,843,800
Accrued liabilities	(121,955)	(77,077)
Payable to participating hospitals	(7,544,387)	7,548,254
Payable to partners	(5,294)	(972,460)
Deferred revenue	(1,740,122)	231,561
Other long-term liabilities	(76,440)	(1,353,465)
Total adjustments	<u>(4,774,278)</u>	<u>959,517</u>
Net cash provided by/(used in) operating activities	<u>(2,855,800)</u>	<u>1,265,680</u>
Cash flows from investing activities		
Purchase of property and equipment	(139,273)	(4,927,528)
Proceeds from sale of property and equipment	2,292	8,112
Purchase of investments	(1,118,928)	(5,822,890)
Proceeds from sales of investments	<u>666,015</u>	<u>6,056,623</u>
Net cash used in investing activities	<u>(589,894)</u>	<u>(4,685,683)</u>
Cash flows from financing activities		
Proceeds from issuance of notes payable	-	2,500,000
Principal payments on notes payable	(139,906)	(96,574)
Proceeds from endowment contributions	<u>251,514</u>	<u>672,048</u>
Net cash provided by financing activities	<u>111,608</u>	<u>3,075,474</u>
Effect of exchange rate changes on cash	<u>77,051</u>	<u>(77,276)</u>
Net decrease in cash and cash equivalents	<u>(3,257,035)</u>	<u>(421,805)</u>
Cash and cash equivalents, at beginning of year	<u>15,872,873</u>	<u>16,294,678</u>
Cash and cash equivalents, at end of year	<u>\$ 12,615,838</u>	<u>\$ 15,872,873</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 224,378	\$ 198,384
Cash paid/(refunded) for unrelated business income tax	\$ (5,711)	\$ 6,158
Noncash investing and financing activities		
Property and equipment financed with accounts payable	\$ 33,566	\$ 158,167

The accompanying notes are an integral part of these financial statements

Children's Miracle Network and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

NOTE A - ORGANIZATION

Children's Miracle Network (the Organization) is a charitable organization, qualified under Section 501(c)(3) of the United States Internal Revenue Code, 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 raises awareness of children's healthcare needs and supports fundraising for nonprofit children's hospitals. The Organization facilitates fundraising for member children's hospitals by 1) establishing and maintaining relationships with corporate and media partners and 2) creating, maintaining and facilitating fundraising programs that are executed by corporate, media and hospital partners to benefit children's health care. The majority of fundraising solicitations are made by Children's Miracle Network partners—corporate sponsors, media sponsors and member hospitals.

Contributions solicited through corporate-sponsored campaigns and through Children's Miracle Network programs are generally received by Children's Miracle Network, acting as an agent, and then paid to member hospitals. Children's Miracle Network has no discretionary variance power over the distribution of such contributions and, in accordance with the Financial Accounting Standards Board Codification of Accounting Standards (ASC) 958-605, *Not-for-Profit Entities - Revenue Recognition*, such contributions are not reflected as revenues in Children's Miracle Network's financial statements. Children's Miracle Network's campaign year is January 1 through December 31. Contributions are distributed to member hospitals quarterly.

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 name and logo. They become sole Children's Miracle Network 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, pediatric programs, equipment 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.

Children's Miracle Network's operational activities are primarily supported by hospital membership fees, mentioned above, and corporate underwriting. Corporate underwriting represents donations from corporate sponsors to Children's Miracle Network.

Children's Miracle Network and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Basis of presentation

The Organization presents its accounts in accordance with the American Institute of Certified Public Accountants Audit and Accounting Guide for Not-for-Profit Organizations (Audit Guide). Under the Audit Guide, not-for-profit organizations are required to provide a statement of financial position, a statement of activities, and a statement of cash flows which are prepared to focus on the organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Not-for-profit organizations are required to report total assets, liabilities, and net assets in a statement of financial position; change in net assets in a statement of activities; and changes in cash and cash equivalents in a statement of cash flows. The Audit Guide also requires that not-for-profit organizations report expenses by their functional classification, such as major programs and supporting activities. The Organization presents expenses by functional classification in a statement of functional expenses.

The Organization maintains its accounts on the accrual basis of accounting. Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Children's Miracle Network has an ongoing long-term funding campaign to benefit its endowment fund. Endowment contributions received with donor restrictions are classified as permanently restricted net assets. Earnings and appreciation thereon are classified as temporarily restricted net assets until such time as the Board appropriates use of the funds. As of August 31, 2010 and August 31, 2009, permanently restricted net asset balances were \$2,064,899 and \$1,986,934, respectively.

Temporarily restricted net assets

Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Children's Miracle Network and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

1. Basis of presentation (continued)

Unrestricted net assets

Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law.

Expirations of temporary restrictions on net assets, i.e., the donor-stipulated purpose have been fulfilled and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets. Occasionally, permanent restrictions will be released when a donor communicates to the Organization that a previously permanently restricted endowment contribution can be used for unrestricted purposes. These modifications are reported as reclassifications between the applicable classes of net assets.

2. Principles of consolidation

The consolidated financial statements include the accounts and operations of Children's Miracle Network, Children's Miracle Network UK, Children's Miracle Network Enterprises Limited, Children's Miracle Network Ireland and Children's Miracle Network Australia for the years ended August 31, 2010 and 2009. All intercompany accounts and transactions have been eliminated in the consolidation.

3. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, and net assets and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, gains and other support, and expenses during the reporting period. On an ongoing basis, the Organization evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Organization believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from these estimates under different future conditions.

4. Cash and cash equivalents

The Organization considers all highly liquid instruments with an original maturity of three months or less when purchased to be cash equivalents. The Organization's cash equivalents consist of money market funds.

Children's Miracle Network and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Restricted cash

Restricted cash and equivalents are resources received from the Organization's campaigns and programs which are payable to member hospitals. Restricted cash is excluded from cash and cash equivalents for the purposes of the statement of cash flows.

6. Investments

Investments are stated at fair value determined by quoted market prices as of year end. Investment income or loss (including realized gains and losses on investments, interest, and dividends) and unrealized gains and losses on investments are recognized in the statements of activities.

7. Contributions

Contributions, grants, and bequests including unconditional promises to give, are recognized upon receipt as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Results of fundraising efforts of corporate-sponsored campaigns and Children's Miracle Network programs that are received as agency funds and later paid to member hospitals are not recognized as revenues; instead, these funds are recorded as restricted cash and payables to member hospitals. Contributions of assets other than cash are recorded at their estimated fair value. Contributions that will be received within one year from the statement of financial position date are not discounted. Contribution pledges that are to be received over multiple years are discounted in accordance with ASC 958-605, *Not-for-Profit Entities - Revenue Recognition*. Interest income associated with these receivables is recognized on a straight-line basis which approximates the effective interest method. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Organization received service and material donations included in the accompanying statement of activities at an estimated fair market value of approximately \$1.0 million and \$1.9 million in 2010 and 2009, respectively. The Organization received a work of art valued at approximately \$80,000 in 2009 that is included in other non-current assets in the statements of financial position. The Organization received cash donations included in the accompanying statements of activities of approximately \$3.8 million and \$6.2 million from three and four major donors during the years ended August 31, 2010 and 2009, respectively.

Children's Miracle Network and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Contributions – continued

The Organization has a substantial number of volunteers that have donated a significant amount of time to the Organization's programs and activities. No amounts have been reflected in the financial statements for these services inasmuch as no objective basis is available to measure the value of such services.

8. Temporarily restricted net assets

The Organization has adopted the following accounting policies with respect to temporarily restricted net assets:

• Contributions with restrictions met in the same year

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of unrestricted net assets.

• Release of restrictions on net assets for acquisition of land, building and equipment

Contributions of land, building, and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with donor stipulations are reported as revenues of temporarily restricted net assets; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

9. Accounts receivable

Accounts receivable represent billings to member hospitals for membership fees and various ancillary services. Accounts receivable are expected to be collected during the next fiscal year and are recorded at net realizable value. The allowance for doubtful accounts is directly related to receivables for the ancillary services provided to member hospitals and to pledges receivable.

Accounts outstanding longer than the contractual payment terms are considered past due and finance charges are charged on the outstanding balance. The Organization determines its allowance by considering a number of factors, including the length of time receivables are past due, the Organization's previous loss history, the member hospital's current ability to pay its obligation to the Organization, and the condition of the general economy and the industry as a whole. The Organization writes off receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Children's Miracle Network and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

10. Property, furniture and equipment

Property, furniture and equipment are recorded at cost when purchased or fair market value at the date of gift, if contributed. Expenditures over \$2,000 that will benefit future periods are capitalized and expensed over the useful life of the asset. Property, furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to ten years for furniture and equipment and thirty years for property. The cost and accumulated depreciation of property and equipment sold or otherwise retired are removed from the accounts and the gain or loss on disposition is reflected in the statement of activities in the period of disposition.

11. Membership and licensing fees

Cash is received in advance from hospitals for membership fees. Membership fee revenue is deferred and amortized ratably over the one-year contract period.

During the periods ended August 31, 2010 and 2009, the Organization recognized approximately \$447,000 and \$465,000, respectively, of revenue from licensing agreements. Fees received under licensing agreements are accounted for as exchange transactions and are recognized in the statement of activities when earned under the terms of the contracts.

12. Foreign currency translation

The accounts of Children's Miracle Network's Canadian office, Children's Miracle Network UK, Children's Miracle Network Enterprises Limited, Children's Miracle Network Ireland and Children's Miracle Network Australia are translated into U.S. dollars in the accompanying financial statements in accordance with ASC 830-30, *Foreign Currency Matters – Translation of Financial Statements*. The functional currency of Children's Miracle Network's Canadian office is the Canadian dollar; the functional currency of Children's Miracle Network UK and Children's Miracle Network Enterprises Limited is the pound; the functional currency of Children's Miracle Network Ireland is the euro; and the functional currency of Children's Miracle Network Australia is the Australian dollar.

13. Income taxes

The Organization received a tax determination letter indicating that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and that it is exempt from federal income tax except to the extent of Unrelated Business Income. The Organization has also been recognized by the State of Utah as an organization exempt from state income taxation except to the extent of Unrelated Business Income.

Children's Miracle Network and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

13. Income taxes – continued

On September 1, 2009, the Organization adopted the provisions of ASC 740-10 (FKA FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). The Organization analyzed all tax positions for all applicable tax jurisdictions for which the statute of limitations remained open, including US federal, Utah state and foreign jurisdictions for the years ended August 31, 2007 through August 31, 2009 and determined there were no material unrecognized tax benefits as of the date of adoption. In addition, there have been no material changes in unrecognized benefits for the above tax jurisdictions since September 1, 2009, nor was there a material effect during the current year nor is it expected that there will be a material change in the 12 months following the year ended August 31, 2010.

In 2010, the Organization recognized \$12,969 in unrelated business income tax benefit. In 2009, the Organization incurred \$19,318 in unrelated business income tax expense resulting from transactions that were not within the scope of the Organization's stated mission.

14. Impairment of long-lived assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

15. Advertising expenses

Advertising costs are expensed as incurred and are included in advertising and promotions on the statements of functional expenses. Advertising costs were approximately \$7.5 million and \$7.3 million in 2010 and 2009, respectively.

16. Functional expenses

The Organization performs four functions: public education & awareness, fundraising program services, fund raising and management & general. Definitions of these functions are as follows:

Public Education & Awareness – All costs incurred to develop, package and provide public outreach programs for member children's hospitals throughout the United States, Canada, the UK, Ireland and Australia.

Children's Miracle Network and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

16. Functional expenses – continued

Fundraising Program Services – Activities performed by the Organization to develop national fundraising programs for over 170 children's hospitals throughout the United States, Canada, the UK, Ireland and Australia. Participation in Children's Miracle Network provides hospitals access to corporate charity care fundraising programs. Expenses include those related to day-to-day involvement with member hospitals, corporate sponsors and media partners.

Fundraising – Activities performed by the Organization to generate funds and/or resources to support its own programs and operations.

Management & General – All costs that are not identifiable with a single program or fundraising activity, but are indispensable to the conduct of such programs and activities and to the Organization's existence. This includes expenses for the overall direction of the Organization, business management, general recordkeeping, budgeting, financial reporting, and activities relating to these functions such as salaries, supplies, equipment, and other general overhead.

The majority of the Organization's expenses are classified as *Public Education & Awareness* and *Fundraising Program Services* as the majority of expenses incurred by the Organization fulfill the purposes or mission for which the Organization exists. Furthermore, the majority of *Fundraising Program Services* expenses are incurred to create, maintain and facilitate fundraising programs that are executed by corporate, media and hospital partners to benefit children's health care. Most actual solicitations to current and potential donors are not made by the Organization; rather, the solicitations are usually made by representatives of the corporate sponsors, media sponsors and member hospitals.

Any expenses incurred by the Organization to raise funds to support its own programs and operations are classified as *Fundraising* expenses.

Wherever practicable, expenses are assigned to functional categories on an item-by-item basis. Other expenses that relate to two or more major programs are allocated in accordance with ASC 958-720, *Not-for-Profit Entities – Other Expenses*. These expenses are subject to systematic review and allocation.

17. Recent accounting pronouncements

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. This amends ASC 820 to require additional disclosures. The guidance requires entities to disclose certain transfers of assets in and out of Levels I and II of the fair value hierarchy, and the reasons for those transfers. These disclosures will be effective for the Organization for the year ended August 31, 2011. In addition, the guidance requires a separate presentation of purchases and sales in the Level III asset reconciliation which will be effective for the Organization for the year ended August 31, 2011. The adoption of this guidance in subsequent years is not expected to have a material effect on the Organization's financial statements.

Children's Miracle Network and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

18. Reclassifications

Certain immaterial reclassifications have been made to fiscal year 2009 financial information to conform to the 2010 presentation.

NOTE C – INVESTMENTS

Investments, at fair value, consist of the following at August, 31:

	<u>2010</u>	<u>2009</u>
Mutual funds:		
International	\$ 4,444,012	\$ 4,101,009
U.S. Domestic	<u>6,294,772</u>	<u>5,747,088</u>
Total	<u>\$ 10,738,784</u>	<u>\$ 9,848,097</u>

The net realized loss on investments was \$63,916 and the net unrealized gain on investments was \$501,689 for the year ended August 31, 2010. The net realized loss on investments was \$616,435 and the net unrealized loss on investments was \$591,392 for the year ended August 31, 2009. The net realized gains or losses are reported net of investment advisor commissions of \$34,400 and \$60,174 in 2010 and 2009, respectively. Interest and dividend income was \$400,420 and \$682,706 in 2010 and 2009, respectively.

NOTE D – FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurements* defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

Cash and cash equivalents and investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Financial instruments with unadjusted, quoted prices listed on active market exchanges. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. This level is primarily cash equivalents of the Organization, and excludes securities held indirectly through commingled funds.

Children's Miracle Network and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

NOTE D – FAIR VALUE MEASUREMENTS – CONTINUED

Level 2 - Financial instruments lacking unadjusted, quoted prices from active market exchanges, including over-the-counter traded financial instruments. The prices for the financial instruments are determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 2 inputs include a) quoted prices for similar assets or liabilities in active markets b) quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly. Although individual investments of a fund may be publicly traded, they are commingled and as a fund are not traded in the open market.

Level 3 - Financial instruments where inputs are unobservable. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques. This level is primarily funds in trusts held by others and private programs in private equity, real estate, venture capital and natural resources. These funds are not traded in the open market until a point in the future, they contain fair values with no observable inputs, and the fair value unobservable inputs contain assumptions market participants would use in pricing the asset or liability.

The following tables present assets that are measured at fair value on a recurring basis.

	Fair value measurements at August 31, 2010			
	Fair value August 31, 2010	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	\$ 3,309,590	\$ 399,520	\$ 2,910,070	\$ -
Investments in mutual funds:				
International	4,444,012	4,444,012	-	-
U.S. Domestic	6,294,772	6,294,772	-	-
	<u>\$ 14,048,374</u>	<u>\$ 11,138,304</u>	<u>\$ 2,910,070</u>	<u>\$ -</u>

Children's Miracle Network and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

NOTE D – FAIR VALUE MEASUREMENTS – CONTINUED

	Fair value measurements at August 31, 2009			
	Fair value August 31, 2009	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents	\$ 21,539,803	\$ 318,853	\$ 21,220,950	\$ -
Investments in mutual funds:				
International	4,101,009	4,101,009	-	-
U.S. Domestic	5,747,088	5,747,088	-	-
	<u>\$ 31,387,900</u>	<u>\$ 10,166,950</u>	<u>\$ 21,220,950</u>	<u>\$ -</u>

NOTE E – PROPERTY, FURNITURE AND EQUIPMENT

A summary of property, furniture and equipment and estimated useful lives as of August 31 follows:

	2010	2009	Useful lives
Land	\$ 1,912,889	\$ 1,912,889	
Building and improvements	6,808,382	6,736,323	30 years
Office furniture and equipment	1,486,986	1,556,742	3-10 years
	10,208,257	10,205,954	
Less accumulated depreciation and amortization	(1,155,355)	(895,663)	
	<u>\$ 9,052,902</u>	<u>\$ 9,310,291</u>	

Depreciation expense was \$429,169 and \$231,048 for the years ended August 31, 2010 and 2009, respectively.

NOTE F – COMMITMENTS AND CONTINGENCIES

Children's Miracle Network is involved in litigation and claims arising in the ordinary course of its operations. The Organization's management believes that the liabilities, if any, arising from such litigation and claims will have no material adverse effect on Children's Miracle Network's financial statements.

Children's Miracle Network and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

NOTE F – COMMITMENTS AND CONTINGENCIES – CONTINUED

The Organization leases certain of its property under long-term operating leases. Certain of the leases have options to renew the lease beyond the initial term. During 2007, the Organization entered into a sales-leaseback transaction for the sale of its corporate offices. The lease terminated on May 1, 2009. Future minimum lease payments required under operating lease agreements as of August 31, 2010 are as follows:

<u>Year ending August 31,</u>		
2011	\$	88,786
2012		64,434
2013		64,693
2014		62,536
2015		<u>16,748</u>
Total future minimum lease payments	\$	<u>297,197</u>

Rent expense for the years ended August 31, 2010 and 2009 was \$118,778 and \$277,691, respectively.

During 2007, Children's Miracle Network entered into a three-way agreement between Children's Miracle Network, Walt Disney World Co. and PGA TOUR, Inc. to be the title sponsor and exclusive benefiting charity of the annual PGA TOUR tournament held at the Walt Disney World Resort in Orlando, Florida. The tournament is called the "Children's Miracle Network Classic." The Organization has future payments required under the agreement of \$4,241,000 for the year ended August 31, 2011. During the 2010 fiscal year, Children's Miracle Network exercised its right, under the terms of the contract, to terminate the agreement at the conclusion of the event to be held during the year ended August 31, 2011.

The Organization recorded \$4,071,122 and \$3,908,000 of expense related to this agreement in the years ended August 31, 2010 and 2009, respectively.

NOTE G – NOTES PAYABLE

During 2008, the Organization entered into a 10-year, 6.25 percent, \$2.5 million mortgage to finance renovations on its new international headquarters building in Salt Lake City, Utah. The loan is amortized over a 25 year period with a balloon payment after 10 years. The loan is secured by the new headquarters building. Debt issuance costs related to this loan were capitalized. Net unamortized debt issuance costs as of August 31, 2010 and 2009 are \$24,545 and are included in other non-current assets in the financial statements.

Children's Miracle Network and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

NOTE G – NOTES PAYABLE – CONTINUED

During 2009, the Organization entered into a subordinated 10-year, 3.0 percent, \$2.5 million long-term financing arrangement with the Redevelopment Agency (RDA) of Salt Lake City to provide the balance of funds for renovating its new international headquarters building in Salt Lake City, Utah. The loan is amortized over a 20 year period with a balloon payment after 10 years. The loan is secured by the new headquarters building.

The following is a schedule by years of aggregate maturities of principal payments for these loans as of August 31, 2010:

<u>Year ending August 31.</u>	
2011	\$ 145,707
2012	151,786
2013	158,155
2014	164,831
2015	171,829
Thereafter	<u>3,971,212</u>
Total	\$ <u>4,763,520</u>

Interest expense for the year ended August 31, 2010 was \$223,409. Interest expense for the year ended August 31, 2009 was \$204,277 of which \$147,421 was capitalized during the period.

NOTE H – CONTRIBUTION RECEIVABLES

Contributions receivable are as follows at August 31:

	<u>2010</u>	<u>2009</u>
Due within one year	\$ 697,481	\$ 207,305
Due in one to five years	<u>329,006</u>	<u>519,161</u>
	1,026,487	726,466
Less discount (6.25%)	(64,661)	(97,123)
Less allowance for uncollectible receivables	<u>(20,919)</u>	<u>(2,092)</u>
	\$ <u>940,907</u>	\$ <u>627,251</u>

Children's Miracle Network and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

NOTE I – CONTRIBUTION PLEDGES

The Organization received \$5,647,000 and \$6,681,000 in conditional contribution pledges and unconditional intentions to give as of August 31, 2010 and 2009, respectively, that were not recognized in the current period financial statements in accordance with ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. These conditional pledges will be recognized in the financial statements in the period when the donor-stipulated conditions are satisfied.

NOTE J – TEMPORARILY RESTRICTED REVENUES

The Organization received contributions with donor imposed stipulations that may or will be met by actions of the Organization and/or the passage of time. Included in these contributions are in-kind donations of airline miles and credits and hotel gift certificates that are to be used for travel and accommodations. The following is a schedule of temporarily restricted revenues recognized for the years ended August 31:

	2010	2009
Purpose restricted pledges	\$ 517,428	\$ 588,381
Time restricted pledges	471,346	21,449
Endowment appreciation and earnings	43,318	-
	<u>\$ 1,032,092</u>	<u>\$ 609,830</u>

NOTE K – EMPLOYEE BENEFIT PLANS

The Organization has a noncontributory defined contribution employee benefit plan (Benefit Plan). The Benefit Plan covers all employees who have completed at least one year of service and are 21 years of age. The Benefit Plan provides for a scheduled vesting of up to 20 percent a year beginning after two years of service.

During 2009, the Organization satisfied all obligations under a Supplemental Executive Retirement Plan (the Plan) which was a money purchase plan. The Plan covered a select group of management and/or highly compensated employees. The Plan provided for cliff-vesting when the individual reached a certain age and remained employed by Children's Miracle Network. No liability existed as of August 31, 2010 or 2009 as the Organization satisfied all obligations related to the Supplemental Executive Retirement Plan during 2009.

The total expense recognized for the Benefit Plan and the Plan noted above was \$1.2 and \$1.1 million for the years ended August 31, 2010 and 2009, respectively.

Children's Miracle Network and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

NOTE L – ENDOWMENT COMPOSITION

Children's Miracle Network adopted FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-For-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, in the year ended August 31, 2009. The Staff Position provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The Staff Position also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Utah adopted UPMIFA effective March 7, 2007. Children's Miracle Network has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent donor stipulations to the contrary. As a result of this interpretation, Children's Miracle Network classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Children's Miracle Network in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Children's Miracle Network considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund.
- 2) The purposes of the organization and the donor-restricted endowment fund.
- 3) General economic conditions.
- 4) The possible effect of inflation and deflation.
- 5) The expected total return from income and the appreciation of investments.
- 6) Other resources of Children's Miracle Network.
- 7) The investment policies of the Organization.

Children's Miracle Network's Endowment Fund is governed subject to a board-approved Endowment Fund Policy. The Board of Trustees, under provisions of the Endowment Fund Policy, has the ability to develop investment policies for the Endowment Fund. Until a separate investment policy is approved, investments of the Endowment Fund are managed in compliance with the policy that governs Children's Miracle Network's 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 targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Children's Miracle Network and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

NOTE L – ENDOWMENT COMPOSITION – CONTINUED

The Board of Trustees, under provisions of the Endowment Fund Policy, has the ability to develop a disbursement policy for the Endowment Fund. Until such disbursement policy is adopted and implemented, all disbursements from the Endowment Fund must be approved by the Board of Trustees. Any expenditure approved for disbursement must be consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

As required by U.S. generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, the deficiencies of this nature that are reported as unrestricted net assets totaled \$0 and \$38,773 as of August 31, 2010 and 2009, respectively.

Endowment net asset composition by type of fund as of August 31, 2010 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ -	\$ 43,318	\$ 2,064,899	\$ 2,108,217
Board-designated endowment funds	932,894	-	-	932,894
Total funds	<u>\$ 932,894</u>	<u>\$ 43,318</u>	<u>\$ 2,064,899</u>	<u>\$ 3,041,111</u>

Changes in endowment net assets for the year ended August 31, 2010 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, August 31, 2009	\$ 829,132	\$ -	\$ 1,986,934	\$ 2,816,066
Contributions	24,447	-	165,825	190,272
Written off receivables	-	-	(4,184)	(4,184)
Investment income	13,121	29,458	-	42,579
Net appreciation	66,194	13,860	-	80,054
Donor recharacterization of gift	-	-	(83,676)	(83,676)
Endowment net assets, August 31, 2010	<u>\$ 932,894</u>	<u>\$ 43,318</u>	<u>\$ 2,064,899</u>	<u>\$ 3,041,111</u>

Children's Miracle Network and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

NOTE L – ENDOWMENT COMPOSITION – CONTINUED

Endowment net asset composition by type of fund as of August 31, 2009 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ (38,773)	\$ -	\$ 1,986,934	\$ 1,948,161
Board-designated endowment funds	867,905	-	-	867,905
Total funds	<u>\$ 829,132</u>	<u>\$ -</u>	<u>\$ 1,986,934</u>	<u>\$ 2,816,066</u>

Changes in endowment net assets for the year ended August 31, 2009 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, August 31, 2008	\$ 900,857	\$ -	\$ 1,225,071	\$ 2,125,928
Contributions	10,500	-	814,945	825,445
Written off receivables	-	-	(53,082)	(53,082)
Investment income	14,220	23,291	-	37,511
Net depreciation	(96,445)	(23,291)	-	(119,736)
Endowment net assets, August 31, 2009	<u>\$ 829,132</u>	<u>\$ -</u>	<u>\$ 1,986,934</u>	<u>\$ 2,816,066</u>

NOTE M – RELATED PARTY TRANSACTIONS

The Organization entered into a \$2.5 million mortgage for renovations on its new headquarters building during 2008. During 2009, the Executive Vice President and Chief Operating Officer of the Organization became Chief Executive Officer of the Organization and was an uncompensated member of the Board of Directors of the lending institution during 2010 and 2009.

NOTE N - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash, cash equivalents and investments. The Organization places its cash and investments with high credit quality financial institutions and generally limits the amount of credit exposure to the amount in excess of the FDIC insurance coverage limit of \$250,000 (limit as of August 31, 2010). From time to time throughout the year, the Organization's cash and investment balances may exceed the amount of the FDIC insurance coverage. The Organization, however, does not anticipate nonperformance by the institutions.

Children's Miracle Network and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2010 and 2009

NOTE N – CONCENTRATIONS OF CREDIT RISK – CONTINUED

The Organization's contributions receivable includes amounts due from two large donors comprising 56% of total contributions receivable at August 31, 2010.

NOTE O – SUBSEQUENT EVENTS

The Organization evaluated subsequent events through December 8, 2010, the date on which the financial statements were issued.

Subsequent to August 31, 2010, the sponsorship payment (as described in Note F) for the PGA event to be held during the year ended August 31, 2011 has been reduced from \$4,241,000 to \$2,500,000.

SUPPLEMENTAL INFORMATION



**Report of Independent Certified Public Accountants
on Supplemental Information**

**Executive Committee and Board of Trustees
Children's Miracle Network and Subsidiaries**

Audit - Tax - Advisory

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Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole of Children's Miracle Network and Subsidiaries as of August 31, 2010, which are presented in the preceding section of this report. The consolidating information on pages 29 and 30 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and change in net assets of the individual entities. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

A handwritten signature in cursive script that reads "Grant Thornton LLP".

Salt Lake City, Utah
December 8, 2010

Children's Miracle Network
and Subsidiaries

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

August 31, 2010

ASSETS

	CMN	UKC	UKE	Ireland	Australia	Total
ASSETS						
Cash and cash equivalents						
Unrestricted	\$ 11,837,961	\$ 422,040	\$ 253,034	\$ 102,803	\$ -	\$ 12,615,838
Restricted	16,584,688	57,386	-	-	-	16,642,074
Investments						
Unrestricted	10,738,784	-	-	-	-	10,738,784
Accounts receivable, net of allowance for doubtful accounts of \$53,719	2,091,229	14,754	2,536	-	-	2,108,519
Contributions receivable	697,481	-	-	-	-	697,481
Intercompany receivable/(payable)	1,390,967	(434,267)	(853,897)	(102,803)	-	-
Prepaid expenses and other current assets	671,114	-	-	-	-	671,114
Property, furniture and equipment, net	9,052,902	-	-	-	-	9,052,902
Non-current contributions receivable net of allowance for doubtful accounts of \$20,919	243,426	-	-	-	-	243,426
Other non-current assets	182,080	-	-	-	-	182,080
Total assets	\$ 53,490,632	\$ 59,913	\$ (598,327)	\$ -	\$ -	\$ 52,952,218

LIABILITIES AND NET ASSETS

LIABILITIES						
Accounts payable	\$ 2,264,100	\$ 1,782	\$ 4,931	\$ -	\$ -	\$ 2,270,813
Accrued liabilities	435,244	-	-	-	-	435,244
Payable to participating hospitals	15,707,711	57,386	-	-	-	15,765,097
Payable to partners	876,977	-	-	-	-	876,977
Deferred revenue	7,389,035	-	-	-	-	7,389,035
Notes payable - current portion	145,707	-	-	-	-	145,707
Notes payable	4,617,813	-	-	-	-	4,617,813
Other long-term liabilities	-	-	-	-	-	-
Total liabilities	31,436,587	59,168	4,931	-	-	31,500,686
NET ASSETS						
Unrestricted	18,957,054	745	(603,258)	-	-	18,354,541
Temporarily restricted	1,032,092	-	-	-	-	1,032,092
Permanently restricted	2,064,899	-	-	-	-	2,064,899
Total net assets	22,054,045	745	(603,258)	-	-	21,451,532
Total liabilities and net assets	\$ 53,490,632	\$ 59,913	\$ (598,327)	\$ -	\$ -	\$ 52,952,218

Children's Miracle Network
and Subsidiaries

CONSOLIDATING STATEMENTS OF ACTIVITIES

Year ended August 31, 2010

	CMN	UKC	UKE	Ireland	Australia	Total
Revenues:						
Hospital fees	\$ 17,351,815	\$ -	\$ (7,828)	\$ 57,534	\$ 8,934	\$ 17,410,455
Direct mail	3,556,688	-	-	-	-	3,556,688
Licensing fees	446,745	-	-	-	-	446,745
Production underwriting gifts	7,130,205	211,276	25,822	67,616	-	7,434,919
Donations-in-kind	986,986	-	-	1,311	-	988,297
Campaign	2,481,249	-	-	-	-	2,481,249
Ancillary revenue	847,686	1,922	-	4,797	-	854,405
Total revenues	<u>32,801,374</u>	<u>213,198</u>	<u>17,994</u>	<u>131,258</u>	<u>8,934</u>	<u>33,172,758</u>
Other revenue:						
Endowments, major gifts, and grants	190,272	-	-	-	-	190,272
Gain on sale of fixed assets, net	1,097	-	-	-	-	1,097
Interest and dividend income	399,922	246	252	-	-	400,420
Net realized loss on investments	(63,916)	-	-	-	-	(63,916)
Net unrealized gain on investments	501,689	-	-	-	-	501,689
Total revenues, gains and other support	<u>33,830,438</u>	<u>213,444</u>	<u>18,246</u>	<u>131,258</u>	<u>8,934</u>	<u>34,202,320</u>
Expenses and losses:						
Program services						
Public education and awareness	12,108,889	38,718	150,159	210,385	-	12,508,151
Fund raising program services	16,837,009	5,531	21,451	30,055	-	16,894,046
Total program services	<u>28,945,898</u>	<u>44,249</u>	<u>171,610</u>	<u>240,440</u>	<u>-</u>	<u>29,402,197</u>
Support services						
Fund raising	373,098	5,531	21,451	30,055	-	430,135
Management and general	2,453,136	5,531	21,451	30,055	32,679	2,542,852
Total support services	<u>2,826,234</u>	<u>11,062</u>	<u>42,902</u>	<u>60,110</u>	<u>32,679</u>	<u>2,972,987</u>
Total expenses and losses	<u>31,772,132</u>	<u>55,311</u>	<u>214,512</u>	<u>300,550</u>	<u>32,679</u>	<u>32,375,184</u>
Other loss/(gain)	(127,527)	4,629	21,062	7,176	3,318	(91,342)
Change in net assets	2,185,833	153,504	(217,328)	(176,468)	(27,063)	1,918,478
Net assets, beginning of year	20,350,736	(152,759)	(385,929)	(149,143)	(129,851)	19,533,054
Net assets, end of year	<u>\$ 22,536,569</u>	<u>\$ 745</u>	<u>\$ (603,257)</u>	<u>\$ (325,611)</u>	<u>\$ (156,914)</u>	<u>\$ 21,451,532</u>