

OSMOND FOUNDATION FOR
THE CHILDREN OF THE WORLD

2002 ANNUAL REPORT

FINANCIAL STATEMENTS FOR THE
YEARS ENDED AUGUST 31, 2002 AND 2001 AND
SUPPLEMENTAL SCHEDULE FOR 2002 AND
2001 INDEPENDENT AUDITORS' REPORT



CHAIRMAN'S MESSAGE



Charlie Amato

Charlie Amato
Chairman, Board of Trustees
Children's Miracle Network

Year after year Children's Miracle Network holds true to its core mission: to save and improve the lives of children by raising funds and awareness for children's hospitals across North America.

Each year Children's Miracle Network hospitals help millions of children—more than any other organization. Our 170 premier hospitals treat children with all types of afflictions such as cancer, muscular dystrophy, AIDS, diabetes, heart disease, and serious injuries. These non-profit hospitals, which depend on community support, provide charity care worth billions every year.

Thanks to caring corporate sponsors, media partners, and individual donors, Children's Miracle Network hospitals are able to provide the highest level of care. Funds raised benefit children and the communities they live in through patient services, medical equipment, health education and prevention programs, and ongoing research.

As always, Children's Miracle Network pledges that donors' contributions go to their Children's Miracle Network hospital. This founding pledge has set us apart from other organizations and continues to do so today.

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MISSION STATEMENT

“The mission of Children’s Miracle Network is to generate funds and awareness programs for the benefit of children and its member hospitals.”

OFFICERS

Mick Shannon
President & CEO

Scott J. Burt
Executive Vice President & COO

INDEPENDENT AUDITOR'S REPORT



To the Board of Trustees of
Osmond Foundation For the Children of the World
(dba Children's Miracle Network):

We have audited the accompanying statements of financial position of Osmond Foundation For the Children of the World (the Foundation) (dba Children's Miracle Network) as of August 31, 2002 and 2001, and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the Foundation'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. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, such financial statements present fairly, in all material respects, the financial position of the Foundation at August 31, 2002 and 2001, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of functional expenses for the year ended August 31, 2002 is presented for the purpose of additional analysis and is not a required part of the basic 2002 financial statements. This schedule is the responsibility of the Foundation's management. Such supplemental schedule has been subjected to the auditing procedures applied in our audit of the basic 2002 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2002 financial statements taken as a whole.

Deloitte & Touche LLP
Salt Lake City, Utah
November 22, 2002

OSMOND FOUNDATION FOR THE CHILDREN OF THE WORLD
(DBA CHILDREN'S MIRACLE NETWORK)STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2002 AND 2001

| ASSETS | 2002 | 2001 |
|--|---------------------|---------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$9,010,230 | \$18,048,867 |
| Investments at fair value | 7,676,512 | 11,565,697 |
| Accounts receivable (net of allowance for doubtful accounts of \$254,949 in 2002 and \$24,640 in 2001) | 1,925,255 | 1,657,815 |
| Note receivable | | 150,000 |
| Prepaid expenses and other assets | 450,747 | 491,664 |
| PROPERTY AND EQUIPMENT - Net | 852,408 | 853,621 |
| NON-CURRENT ASSETS: | | |
| Long-term portion of accounts receivable | 504,798 | |
| Prepaid premiums on life insurance contracts | 329,852 | 376,281 |
| TOTAL ASSETS | \$20,749,802 | \$33,143,945 |
| LIABILITIES AND NET ASSETS | | |
| ACCOUNTS PAYABLE | \$1,196,166 | \$861,547 |
| PAYABLE TO PARTICIPATING HOSPITALS | 6,171,932 | 19,728,974 |
| DEFERRED REVENUE | 3,055,219 | 1,855,990 |
| OTHER LIABILITIES | 400,459 | 408,529 |
| Total liabilities | 10,823,776 | 22,855,040 |
| NET ASSETS: | | |
| Unrestricted | 9,928,420 | 10,299,208 |
| Temporarily restricted | 16,122 | 16,122 |
| Cumulative translation adjustment | (18,516) | (26,425) |
| Total net assets | 9,926,026 | 10,288,905 |
| TOTAL LIABILITIES AND NET ASSETS | \$20,749,802 | \$33,143,945 |

See notes to financial statements.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2002 AND 2001

| | 2002 | 2001 |
|--|-------------|-------------|
| REVENUES, GAINS, AND OTHER SUPPORT: | | |
| Hospital fees | \$4,530,753 | \$4,585,938 |
| Production underwriting gifts | 5,634,573 | 6,900,938 |
| Interest and dividends | 686,576 | 1,393,363 |
| Direct Mail | 4,202,321 | 967,448 |
| Donations-in-kind | 1,163,688 | (784,138) |
| Net realized and unrealized gain (loss) on investments | (831,273) | 432,724 |
| Other | 544,468 | |
| Total revenues, gains, and other support | 15,931,106 | 13,496,273 |

EXPENSES AND LOSSES:

| | | |
|--|-------------|--------------|
| Program services: | | |
| Public education | 4,144,829 | 4,094,335 |
| Network support / professional education | 8,273,598 | 6,154,140 |
| Community services | 1,933,127 | 1,968,154 |
| Total program services | 14,351,554 | 12,216,629 |
| Support services: | | |
| Fund raising | 1,321,885 | 449,743 |
| General and administrative | 628,455 | 618,725 |
| Total support services | 1,950,340 | 1,068,468 |
| Total expenses and losses | 16,301,894 | 13,285,097 |
| CHANGE IN NET ASSETS | (370,788) | 211,176 |
| NET ASSETS AT BEGINNING OF YEAR | 10,288,905 | 10,081,739 |
| CHANGE IN AGGREGATE ADJUSTMENT RESULTING FROM THE TRANSLATION OF FOREIGN CURRENCY STATEMENTS | 7,909 | (4,010) |
| NET ASSETS AT END OF YEAR | \$9,926,026 | \$10,288,905 |

See notes to financial statements.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2002 AND 2001

| | 2002 | 2001 |
|---|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$(370,788) | \$211,176 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Loss (gain) on sale of fixed assets | 5,003 | (1,621) |
| Depreciation | 114,364 | 111,868 |
| Net unrealized loss on investments | 639,636 | 1,647,566 |
| Change in: | | |
| Accounts receivable | (772,238) | (150,046) |
| Notes Receivable | | 214,589 |
| Prepaid expenses and other assets | 40,917 | (466,369) |
| Accounts payable | 334,619 | (308,206) |
| Payable to participating hospitals | (13,557,042) | (20,036,742) |
| Deferred revenue | 1,199,229 | (1,016,700) |
| Other liabilities | (8,086) | 408,529 |
| Net cash used in operating activities | (12,374,386) | (19,385,956) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| (Purchases) Sales of investments, net | 3,249,549 | (5,829,183) |
| Payments on notes receivable | 150,000 | 140,000 |
| Purchases of property and equipment | (118,138) | (77,000) |
| Proceeds from sale of property and equipment | | 18,880 |
| Decrease in prepaid premiums on life insurance contracts | 46,429 | 45,700 |
| Net cash provided by (used in) investing activities | 3,327,840 | (5,701,603) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | 7,909 | (4,010) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (9,038,637) | (25,091,569) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 18,048,867 | 43,140,436 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$9,010,230 | \$18,048,867 |

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2002 AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—Osmond Foundation For the Children of the World (the Foundation) (dba Children's Miracle Network) is a not-for-profit 501(c)(3) corporation organized for the following purposes:

- (1) To make distributions to other charitable organizations.
- (2) To focus, coordinate, and develop the fund-raising activities of corporations and of health service providers (usually children's hospitals) for the benefit of sick and injured children, including treatment, health care research, and acquisition of health care equipment and supplies.
- (3) To generate awareness programs concerning the health care and safety needs of children, as well as the resource needs of hospitals and related institutions serving children.
- (4) To produce educational programs for the general public that advance the welfare and development of children and youth and of the institutions and people who provide health care to children and youth.

The Foundation's principal method of raising awareness and of supporting fund raising for nonprofit children's hospitals is Children's Miracle Network Celebration, a television special, which is broadcast at the end of each year's campaign. Contributions solicited throughout the annual campaign and through Children's Miracle Network Celebration are generally received by Children's Miracle Network, acting as an agent, and then paid to the participating hospitals. The Foundation has no discretionary variance power over the distribution of such contributions and, in accordance with Statement of Financial Accounting Standards No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, such contributions are not reflected in the Foundation's financial statements. During the year ended August 31, 2001, the Foundation changed its campaign year from July 1 through June 30 to January 1 through December 31. Contributions are to be distributed to participating hospitals no later than March 31 of the subsequent year.

To participate in an upcoming year's fund-raising and awareness campaign, hospitals license the use of the Children's Miracle

Network name and logo. They become sole Children's Miracle Network licensees in their respective markets; the funds raised within these markets benefit the hospital's pediatric programs. Corporate sponsors need not become licensees; however, they are generally required to donate all of the funds they raise to hospitals affiliated with Children's Miracle Network.

The Foundation's operational activities are supported by hospital fees, corporate underwriting, and fund-raising activities. Management identifies and allocates direct costs to the applicable categories noted below. Management also allocates expenses to the following categories based upon estimated percentages of the resources expended:

- **Public Education**—The Foundation develops, produces, broadcasts, and promotes awareness programming concerning the health, welfare, and development needs of children.
- **Network Support/Professional Education**—The Foundation develops national corporate sponsors to raise funds for participating hospitals. The Foundation also provides resources and assistance to hospitals for raising funds for the benefit of sick and injured children; that benefit includes treatment (charity care), health care research, and acquisition of health care equipment and supplies.
- **Community Services**—The Foundation develops, produces, and presents community education programs and makes these programs available to participating hospitals and other community-based institutions that promote the sound health, safety, and development of children and youth.

Revenues - Unconditional promises to give to the Foundation are recognized as revenues and assets of the Foundation.

Deferred Revenue - Cash received in connection with licensing fees received from hospitals is deferred and amortized to hospital fees over the one-year license period.

Donations-in-kind - Donations-in-kind include hotel accommodations and airfare. In-kind donations are accounted for at estimated fair value as both revenues when donated and expenses when utilized.

Basis of Accounting - The financial statements of the Foundation have been prepared on the accrual basis of accounting. The underlying accounting of the Foundation is maintained in accordance with the principles of fund accounting. These principles require that the resources of the Foundation be classified into groups or funds in accordance with activities or objectives specified for the resources.

The net assets of the funds of the Foundation have been classified into three categories: Unrestricted, Temporarily Restricted, and Permanently Restricted. These categories are determined based on restrictions placed upon resources provided to the Foundation by donors or others. Unrestricted net assets are available to be used by the Foundation because either contributions or other revenues were received without restriction or donor restrictions have expired. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. As of August 31, 2002, the Foundation has not received any resources which have been permanently restricted by the donor. During the years ended August 31, 2002 and 2001, all significant activities of the Foundation relate to unrestricted funds.

Investments - Investments are stated at fair value as generally determined by quoted market prices. Investment income is recorded in the statements of activities.

Property and Equipment - Purchased property and equipment is recorded at cost. Donated property and equipment is recorded at its estimated fair value at the date of donation. Depreciation is calculated on the straight-line basis over the estimated useful lives of the related property.

Prepaid Premiums on Life Insurance Contracts - The Foundation has purchased life insurance contracts on the lives of certain donors to the Foundation. Under such contracts, the Foundation would receive a death benefit if the donor were to die plus any prepaid premium the Foundation may have made under the contract. Such prepaid premiums are charged to expense as premiums under the contract when due and are refundable to the Foundation in the event that the contracts are canceled.

Income Taxes - The Foundation has received a favorable determination letter from the Internal Revenue Service and is exempt from taxation. Accordingly, no provision for Federal or State income taxes has been made in the accompanying financial statements.

Foreign Currency Translation - The accounts of the Foundation's Canadian office are translated into U.S. dollars in the accompanying financial statements. Assets and liabilities are translated at rates prevailing at the balance sheet date. Revenues, expenses, gains, and losses are translated at a weighted average rate for the period. Transactions are translated at the rate prevailing as of the transaction date. Cumulative translation adjustments are recorded as an adjustment to net assets in a separate translation adjustment account.

The following financial information relating to the Canadian office has been included in the 2002 and 2001 financial statements (U.S. dollars):

| | 2002 | 2001 |
|---|-----------|-----------|
| Assets | \$178,629 | \$348,524 |
| Liabilities | 1,701,579 | 1,748,023 |
| Revenues, gains, and other support | 486,389 | 395,922 |
| Excess of expenses and losses over revenues, gains, and other support | 57,194 | 97,048 |

Use of Estimates in Preparing Financial Statements - 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimate which is particularly susceptible to change relates to the allowance for doubtful accounts. Actual results could differ from the estimate.

Statements of Cash Flows - The Foundation considers cash and short-term investments with original maturities of three months or less to be cash equivalents.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at August 31, 2002 and 2001:

| | 2002 | 2001 |
|----------------------------------|--------------------|---------------------|
| Cash on hand | \$3,458 | \$3,458 |
| Demand deposits and NOW accounts | 6,099,428 | 4,459,218 |
| Wells Fargo Money Market account | 1,682,749 | 11,782,607 |
| Commercial paper | <u>\$1,224,595</u> | <u>\$1,803,584</u> |
| Total | <u>\$9,010,230</u> | <u>\$18,048,867</u> |

3. NOTE RECEIVABLE

The Foundation has entered into a note receivable wherein a hospital has agreed to pay to the Foundation four annual payments of \$150,000 beginning on September 1, 1998. The note is reflected in the accompanying August 31, 2001 statements of financial position at its estimated present value using a discount rate of 7.5%. The note receivable was paid in full during the year ended August 31, 2002.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at August 31, 2002 and 2001:

| | 2002 | 2001 |
|-------------------------------|------------------|------------------|
| Land | \$180,000 | \$180,000 |
| Building and improvements | 708,944 | 708,944 |
| Furniture and equipment | 579,079 | 537,177 |
| Total | 1,468,023 | 1,426,121 |
| Less accumulated depreciation | (615,615) | (572,500) |
| Property and equipment - net | <u>\$852,408</u> | <u>\$853,621</u> |

5. INVESTMENTS

Investments at fair value, consist of the following at August 31, 2002 and 2001:

| | 2002 | 2001 |
|----------------------------|--------------------|---------------------|
| Mutual funds | \$4,056,526 | \$4,540,366 |
| U.S. Government securities | 1,037,407 | 2,512,382 |
| Corporate bonds | 782,943 | 2,196,120 |
| Mortgage securities | 597,701 | 491,829 |
| Municipal bonds | 1,201,935 | 1,825,000 |
| Total | <u>\$7,676,512</u> | <u>\$11,565,697</u> |

Investment income was approximately \$686,000 and \$1,393,000 during the years ended August 31, 2002 and 2001, respectively, and net unrealized gains (losses) were approximately \$(640,000) \$(1,648,000), respectively. Realized gains (losses) for the years ended August 31, 2002 and 2001 were approximately \$(191,000) and \$863,000 respectively.

6. LEASES

The Foundation leases certain of its property under long-term operating leases. Future minimum lease payments required under these agreements are as follows as of August 31, 2002:

| For the years ending August 31: | |
|---------------------------------|------------------|
| 2003 | 34,735 |
| 2004 | 32,908 |
| 2005 | 29,383 |
| 2006 | 24,355 |
| 2007 and thereafter | <u>519</u> |
| Total | <u>\$121,900</u> |

Certain of the leases have options to renew beyond their initial term. Rental expense for operating leases was approximately \$34,000 and \$36,000 for the years ended August 31, 2002 and 2001, respectively.

7. EMPLOYEE BENEFIT PLANS

The Foundation has a noncontributory defined contribution employee pension plan. The plan covers all employees who have completed at least one year of service and are 21 years of age. The plan provides for a scheduled vesting of up to 20% a year beginning after two years of service.

The Foundation has a Supplemental Executive Retirement Plan which is a money purchase plan. The Plan covers a select group of management and/or highly compensated employees. The plan provides for cliff-vesting when the individual reaches a certain age and remains employed by the Foundation.

Expense is determined in accordance with a formula and for the years ended August 31, 2002 and 2001 was approximately \$545,000 and \$930,000, respectively, for both plans.

8. LITIGATION

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

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SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED AUGUST 31, 2002

| Description | Program Service | | | Support Services | | |
|--------------------------------|--------------------|---|--------------------|--------------------|------------------------|---------------------|
| | Public Education | Network Support/ Professional Education | Community Services | Fund Raising | General Administrative | Total |
| | | | | | | |
| Travel | \$1,069,439 | \$1,204,928 | \$457,389 | \$88,287 | \$56,611 | \$2,876,654 |
| Employment costs | 1,014,197 | 2,951,248 | 599,888 | 222,232 | 347,128 | 5,134,693 |
| Equipment rent and maintenance | 14,529 | 23,861 | 5,711 | 946 | 2,440 | 47,487 |
| Contracted services | 1,216,765 | 558,938 | 670,586 | 20,915 | 41,723 | 2,508,927 |
| Advertising and promotion | 118,894 | 68,139 | 17,239 | 4,718 | 2,214 | 211,204 |
| Printing and photography | 83,131 | 110,236 | 25,277 | 6,388 | 4,205 | 229,237 |
| Sponsorship support | 74,857 | 629,251 | 56,777 | 43,127 | 10,034 | 814,046 |
| Program support | 358,947 | 2,315,209 | | 897,368 | 17,947 | 3,589,471 |
| Occupancy utilities | 10,419 | 34,223 | 6,945 | 1,100 | 4,631 | 57,318 |
| Telephone | 28,186 | 68,833 | 13,340 | 4,718 | 5,005 | 120,082 |
| Depreciation | 2,285 | 36,214 | | 2,115 | 73,750 | 114,364 |
| Professional fees | 36,153 | 86,454 | 26,367 | 12,416 | 48,092 | 209,482 |
| Insurance | 26,962 | 15,861 | 15,539 | 1,824 | 2,627 | 62,813 |
| Licenses and fees | 3,772 | 13,738 | 1,320 | 3,434 | 1,825 | 24,089 |
| Postage and shipping | 29,026 | 79,212 | 14,034 | 6,702 | 2,705 | 131,679 |
| Supplies | 52,295 | 72,099 | 20,983 | 5,197 | 7,259 | 157,833 |
| Other | 4,972 | 5,154 | 1,732 | 398 | 259 | 12,515 |
| TOTAL | <u>\$4,144,829</u> | <u>\$8,273,598</u> | <u>\$1,933,127</u> | <u>\$1,321,885</u> | <u>\$628,455</u> | <u>\$16,301,894</u> |



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