

OSMOND FOUNDATION FOR
THE CHILDREN OF THE WORLD



2001 ANNUAL REPORT



CHAIRMAN'S MESSAGE



Jon E. Vice
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.

Jon E. Vice



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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, 2001 and 2000, 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, 2001 and 2000, 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, 2001 is presented for the purpose of additional analysis and is not a required part of the basic 2001 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 2001 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2001 financial statements taken as a whole.

Deloitte & Touche LLP
Salt Lake City, Utah
November 6, 2001

OSMOND FOUNDATION FOR THE CHILDREN OF THE WORLD
(DBA CHILDREN'S MIRACLE NETWORK)

STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2001 AND 2000

ASSETS	2001	2000
CURRENT ASSETS:		
Cash and cash equivalents	\$18,048,867	\$43,140,436
Investments - at fair value	11,565,697	7,384,081
Accounts receivable (net of allowance for doubtful accounts of \$24,640 in 2001 and \$48,086 in 2000)	1,657,815	1,507,769
Current portion of note receivable	150,000	150,000
Prepaid expenses	491,664	25,295
Inventories		214,589
PROPERTY AND EQUIPMENT - Net	853,621	905,747
NON-CURRENT ASSETS:		
Note receivable		140,000
Prepaid premiums on life insurance contracts	376,281	421,981
TOTAL ASSETS	\$33,143,945	\$53,889,898
LIABILITIES AND NET ASSETS		
ACCOUNTS PAYABLE	\$861,547	\$1,169,753
PAYABLE TO PARTICIPATING HOSPITALS	19,728,974	39,765,716
DEFERRED REVENUE	1,855,990	2,872,690
OTHER LIABILITIES	408,529	
Total liabilities	22,855,040	43,808,159
NET ASSETS:		
Unrestricted	10,299,208	10,088,032
Temporarily restricted	16,122	16,122
Cumulative translation adjustment	(26,425)	(22,415)
Total net assets	10,288,905	10,081,739
TOTAL LIABILITIES AND NET ASSETS	\$33,143,945	\$53,889,898

See notes to financial statements.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2001 AND 2000

	2001	2000
REVENUES, GAINS, AND OTHER SUPPORT:		
Hospital fees	\$4,585,938	\$3,831,785
Production underwriting gifts	6,900,938	5,265,015
Wishbook revenues	43,044	1,454,583
Interest and dividends	1,393,363	639,859
Donations-in-kind	967,448	726,310
Net realized and unrealized gain (loss) on investments	(784,138)	1,016,882
Other	389,680	360,434
Total revenues, gains, and other support	13,496,273	13,294,868
EXPENSES AND LOSSES:		
Program services:		
Public education	4,094,335	4,115,978

Network support / professional education	6,154,140	5,548,724
Community services	1,968,154	1,822,464
Total program services	12,216,629	11,487,166
Support services:		
Fund raising	449,743	510,635
General and administrative	618,725	856,983
Total support services	1,068,468	1,367,618
Total expenses and losses	13,285,097	12,854,784
CHANGE IN NET ASSETS	211,176	440,084
NET ASSETS AT BEGINNING OF YEAR	10,081,739	9,643,672
CHANGE IN AGGREGATE ADJUSTMENT RESULTING FROM THE TRANSLATION OF FOREIGN CURRENCY STATEMENTS	(4,010)	(2,017)
NET ASSETS AT END OF YEAR	\$10,288,905	\$10,081,739

See notes to financial statements.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2001 AND 2000

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$211,176	\$440,084
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Loss (gain) on sale of fixed assets	(1,621)	17,991
Bad debt expense		38
Depreciation	111,868	112,685
Net unrealized (gain) loss on investments	1,647,566	(478,404)
Change in:		
Accounts receivable	(150,046)	540,767
Prepaid expenses	(466,369)	(20,058)
Inventories	214,589	106,708
Accounts payable	(308,206)	(49,683)
Payable to participating hospitals	(20,036,742)	35,789,795
Deferred revenue	(1,016,700)	635,238
Other liabilities	408,529	
Net cash provided by (used in) operating activities	(19,385,956)	37,095,161
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments, net	(5,829,183)	(731,813)
Payments on notes receivable	140,000	130,000
Purchases of property and equipment	(77,000)	(432,727)
Proceeds from sale of property and equipment	18,880	
Decrease in prepaid premiums on life insurance contracts	45,700	43,466
Net cash used in investing activities	(5,701,603)	(991,074)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(4,010)	(2,017)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(25,091,569)	36,102,070
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	43,140,436	7,038,366
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$18,048,867	\$43,140,436

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2001 AND 2000

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:

- To make distributions to other charitable organizations.
- 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.
- 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.
- 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 distributions 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; 100 percent of funds raised within these markets benefit the hospital's pediatric programs. Corporate sponsors need not become licensees; however, they are generally required to donate 100 percent 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.

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, 2001, the Foundation has not received any resources which have been permanently restricted by the donor. During the years ended August 31, 2001 and 2000, 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.

Inventories - Inventories consist of goods held for sale in connection with Wishbook revenues and are stated at the lower of cost or market using the first-in, first-out method. During the year ended August 31, 2001, the Foundation entered into an agreement with an unrelated third party to purchase the remaining Wishbook inventory and handle all of the sales of Wishbook items with royalties paid to the Foundation. Accordingly, no inventories were held as of August 31, 2001.

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.

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.

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.

Reclassification's - Certain reclassification's to the 2000 amounts have been made to conform to the 2001 classifications.

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 2001 and 2000 financial statements (U.S. dollars):

	2001	2000
Assets	\$348,524	\$295,105
Liabilities	1,748,023	1,683,776
Revenues, gains, and other support	395,922	434,081
Excess of expenses and losses over revenues, gains, and other support	97,048	96,586

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, 2001 and 2000:

	2001	2000
Cash on hand	\$3,458	\$5,982
Demand deposits and NOW accounts	4,459,218	43,134,454
Wells Fargo Money Market account	11,782,607	
Commercial paper	1,803,584	
Total	<u>\$18,048,867</u>	<u>\$43,140,436</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 and 2000 statements of financial position at its estimated present value using a discount rate of 7.5%.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at August 31, 2001 and 2000:

	2001	2000
Land	\$180,000	\$180,000
Building and improvements	708,944	697,124
Furniture and equipment	<u>537,177</u>	<u>641,758</u>
Total	1,426,121	1,518,882
Less accumulated depreciation	<u>(572,500)</u>	<u>(613,135)</u>
Property and equipment - net	<u>\$853,621</u>	<u>\$905,747</u>

5. INVESTMENTS

Investments consist of the following at August 31, 2001 and 2000:

	2001	2000
Mutual funds	\$4,540,366	\$5,382,629
U.S. Government securities	2,512,382	876,646
Corporate bonds	2,196,120	725,396
Mortgage securities	491,829	399,410
Municipal bonds	<u>1,825,000</u>	
Total	<u>\$11,565,697</u>	<u>\$7,384,081</u>

Investment income, consisting of interest and dividend income, was approximately \$1,393,000 and \$639,000 during the years ended August 31, 2001 and 2000, respectively, and net unrealized gains (losses) were approximately \$(1,648,000) and \$478,000, respectively. Realized gains for the years ended August 31, 2001 and 2000 were approximately \$863,000 and \$539,000, 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, 2001:

For the years ending August 31:		
2002		\$31,631
2003		25,007
2004		25,007
2005		<u>10,844</u>
Total		<u>\$92,489</u>

Certain of the leases have options to renew beyond their initial term. Rental expense for operating leases was approximately \$36,000 and \$26,000 for the years ended August 31, 2001 and 2000, 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.

Pension expense is determined in accordance with a formula and for the years ended August 31, 2001 and 2000 was approximately \$930,000 and \$413,000, respectively.

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.

SUPPLEMENTAL SCHEDULE

SCHEDULE OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED AUGUST 31, 2001

	Program Service			Support Services		Total
	Public Education	Network Support/ Professional Education	Community Services	Fund Raising	General Administration	
Travel	\$1,016,297	\$1,056,114	\$452,568	\$79,479	\$47,072	\$2,651,530
Employment costs	1,285,741	2,917,683	6,74,193	249,063	365,501	5,492,181
Equipment rent and maintenance	21,446	22,591	8,189	518	1,968	54,712
Contracted services	1,098,642	620,969	630,485	15,925	41,231	2,407,252
Purchases	50,821	21,176	4,234		8,470	84,701
Advertising and promotion	26,722	38,469	4,135	1,769	4,529	75,624
Printing and photography	131,183	94,879	33,011	2,604	4,037	265,714
Sponsorship support	56,114	458,114	43,470	30,658	6,053	594,409
Program support	124,343	518,093		48,355		690,791
Occupancy utilities	9,537	24,270	5,866	837	3,697	44,207
Telephone	31,505	60,338	15,834	3,738	4,903	116,358
Depreciation	2,336	36,729		2,188	70,615	111,868
Professional fees	35,582	61,098	30,481	2,282	27,081	156,524
Insurance	25,535	16,709	16,673	1,774	2,232	62,923
Licenses and fees	4,536	14,599	2,996	1,081	2,241	25,453
Postage and shipping	44,098	83,000	17,164	5,414	7,162	156,838
Supplies	50,992	72,394	21,919	3,952	8,890	158,147
Other	78,905	36,915	6,916	86	13,043	135,865
TOTAL	<u>\$4,094,335</u>	<u>\$6,154,140</u>	<u>\$1,968,154</u>	<u>\$449,743</u>	<u>\$618,725</u>	<u>\$13,285,097</u>



4525 South 2300 East
Salt Lake City, Utah 84117
801-278-8900
FAX 801-277-8787

4220 Steeles Ave. West, Suite C18
Woodbridge, Ontario L4L 3S8
905-265-9750
FAX 905-265-9749
www.cmn.org