



**MARCH OF DIMES BIRTH DEFECTS FOUNDATION**

Financial Statements and Schedule

December 31, 2004 and 2003

(With Independent Auditors' Report Thereon)

TN



KPMG LLP  
345 Park Avenue  
New York, NY 10154

## Independent Auditors' Report

Board of Trustees  
March of Dimes Birth Defects Foundation:

We have audited the accompanying balance sheets of the March of Dimes Birth Defects Foundation (the Foundation) as of December 31, 2004 and 2003, and the related statements of activities, functional expenses, and 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 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 Foundation's internal control over financial reporting. Accordingly, we express no such opinion. 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, the financial statements referred to above present fairly, in all material respects, the financial position of the March of Dimes Birth Defects Foundation as of December 31, 2004 and 2003, 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.

As discussed in note 12, the 2003 financial statements have been restated.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the March of Dimes Birth Defects Foundation taken as a whole. The 2004 supplementary information included in the Supplementary Chapter Schedule of Activities for the Tennessee Chapter is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the 2004 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2004 basic financial statements taken as a whole.

**KPMG LLP**

March 11, 2005

**MARCH OF DIMES BIRTH DEFECTS FOUNDATION**

Statement of Activities

Year ended December 31, 2004

(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b><u>Operating Activity</u></b>				
Revenue:				
Campaign contributions and sponsorships.....	\$ 207,303	\$ 1,730	\$ -	\$ 209,033
Less: direct benefits to donors and sponsors.....	(15,791)	-	-	(15,791)
Net campaign contributions and sponsorships.....	191,512	1,730	-	193,242
Bequests.....	2,594	1,417	-	4,011
Government, foundation and corporate grants.....	9,855	185	-	10,040
Major gifts and other contributions.....	4,481	275	-	4,756
Contributed services.....	2,232	-	-	2,232
Investment return appropriated for operations (note 2).....	2,561	439	-	3,000
Program service revenue.....	2,107	-	-	2,107
Other.....	1,878	-	-	1,878
Net assets released from restrictions.....	4,063	(4,063)	-	-
Total revenue.....	221,283	(17)	-	221,266
Expenses:				
Program services:				
Research and medical support.....	39,012	-	-	39,012
Public and professional education.....	77,541	-	-	77,541
Community services.....	46,844	-	-	46,844
Total program services.....	163,397	-	-	163,397
Supporting services:				
Management and general.....	15,874	-	-	15,874
Fund raising.....	37,510	-	-	37,510
Total supporting services.....	53,384	-	-	53,384
Total expenses.....	216,781	-	-	216,781
Excess of operating revenue over expenses.....	4,502	(17)	-	4,485
<b><u>Non-operating Activity</u></b>				
Investment return greater than amount appropriated for operations (note 2).....	2,902	-	-	2,902
Net increase in fair value of assets held in trust by others.....	-	30	187	217
Excess of total revenue over total expenses.....	7,404	13	187	7,604
Decrease in minimum pension liability.....	980	-	-	980
Increase in net assets.....	8,384	13	187	8,584
Net assets at beginning of year.....	6,703	4,589	11,763	23,055
Net assets at end of year.....	\$ 15,087	\$ 4,602	\$ 11,950	\$ 31,639

See accompanying notes to financial statements.

**MARCH OF DIMES BIRTH DEFECTS FOUNDATION**

Statement of Activities  
Year ended December 31, 2003

(in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b><u>Operating Activity</u></b>				
Revenue:				
Campaign contributions and sponsorships.....	\$ 197,124	\$ 1,570	\$ -	\$ 198,694
Less: direct benefits to donors and sponsors.....	(15,642)	-	-	(15,642)
Net campaign contributions and sponsorships.....	181,482	1,570	-	183,052
Bequests.....	2,389	459	-	2,848
Government, foundation and corporate grants.....	10,241	198	-	10,439
Major gifts and other contributions.....	4,108	472	-	4,580
Contributed services.....	1,996	-	-	1,996
Investment return appropriated for operations (note 2).....	2,477	523	-	3,000
Program service revenue.....	1,841	-	-	1,841
Other.....	2,340	-	-	2,340
Net assets released from restrictions.....	3,480	(3,480)	-	-
Total revenue.....	210,354	(258)	-	210,096
Expenses:				
Program services:				
Research and medical support.....	31,932	-	-	31,932
Public and professional education.....	75,764	-	-	75,764
Community services.....	45,193	-	-	45,193
Total program services.....	152,889	-	-	152,889
Supporting services:				
Management and general.....	17,505	-	-	17,505
Fund raising.....	37,580	-	-	37,580
Total supporting services.....	55,085	-	-	55,085
Total expenses.....	207,974	-	-	207,974
Excess (deficiency) of operating revenue over expenses.....	2,380	(258)	-	2,122
<b><u>Non-operating Activity</u></b>				
Investment return greater than amount appropriated for operations (note 2).....	6,735	-	-	6,735
Net (decrease) increase in fair value of assets held in trust by others.....	-	(155)	847	692
Excess (deficiency) of total revenue over total expenses.....	9,115	(413)	847	9,549
Increase in minimum pension liability, as restated.....	(2,413)	-	-	(2,413)
Increase (decrease) in net assets, as restated.....	6,702	(413)	847	7,136
Net assets at beginning of year.....	1	5,002	10,916	15,919
Net assets at end of year, as restated.....	\$ 6,703	\$ 4,589	\$ 11,763	\$ 23,055

See accompanying notes to financial statements.

**MARCH OF DIMES BIRTH DEFECTS FOUNDATION**

**Statements of Cash Flows**

**Years ended December 31, 2004 and 2003**

**(in thousands)**

	<u>2004</u>	<u>2003</u> <u>(as restated)</u>
<b>Cash flows from operating activities:</b>		
Increase in net assets.....	\$ 8,584	\$ 7,136
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation.....	2,420	2,422
Net appreciation in fair value of investments.....	(2,691)	(7,212)
Net increase in fair value of assets held in trust by others.....	(217)	(692)
Decrease (increase) in contributions and other receivables.....	1,119	(5)
Decrease (increase) in inventory and other assets.....	1,355	(2,260)
(Increase) decrease in assets held in trust by others.....	(407)	3,387
Increase (decrease) in grants and awards payable.....	704	(8,808)
Increase in accounts payable and accrued expenses.....	5,251	178
Increase in refundable advances and deferred revenue.....	2,032	1,595
(Decrease) increase in accrued postretirement and pension benefit costs.....	(3,734)	6,125
Net cash provided by operating activities.....	<u>14,416</u>	<u>1,866</u>
<b>Cash flows from investing activities:</b>		
Purchase of fixed assets.....	(1,779)	(925)
Purchase of investments.....	(118,169)	(129,083)
Proceeds from sale of investments.....	<u>103,892</u>	<u>129,765</u>
Net cash used in investing activities.....	<u>(16,056)</u>	<u>(243)</u>
<b>Cash flows from financing activities:</b>		
Payments on mortgage note.....	(520)	(495)
Net cash used in financing activities.....	<u>(520)</u>	<u>(495)</u>
Net (decrease) increase in cash and cash equivalents.....	(2,160)	1,128
Cash and cash equivalents at beginning of year.....	<u>10,918</u>	<u>9,790</u>
Cash and cash equivalents at end of year.....	<u>\$ 8,758</u>	<u>\$ 10,918</u>
Supplemental disclosures: Interest paid.....	<u>\$ 342</u>	<u>\$ 367</u>

See accompanying notes to financial statements.

# MARCH OF DIMES BIRTH DEFECTS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The mission of the March of Dimes Birth Defects Foundation (the Foundation) is to improve the health of babies by preventing birth defects and infant mortality. The Foundation carries out this mission through programs of research and medical support, community services, education, and advocacy.

The financial statements include the accounts of the Foundation's National Office and its 54 Chapters. The California Birth Defects Monitoring Program (CBDMP) is a separate and distinct program unit of the Foundation's National Office engaged in research funded principally under a contract from the State of California. All significant intra-Foundation accounts and transactions have been eliminated.

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Actual results may differ from those estimates.

The accompanying financial statements have been prepared to focus on the Foundation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets resulting from revenue whose use by the Foundation is not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets - Net assets resulting from revenue whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those donor-imposed stipulations.

Permanently Restricted Net Assets - Net assets resulting from revenue whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by donors or state law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the required time period has elapsed) are reported as net assets released from restrictions.

The Foundation excludes from operating activities investment return in excess of or less than the amount approved by the Board of Trustees for spending (see note 2) and the change in fair value of assets held in trust by others.

# MARCH OF DIMES BIRTH DEFECTS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

1. cont'd

Cash equivalents consist of money market accounts and short-term investments with maturities of three months or less from date of purchase, except for such investments purchased by the Foundation and its investment manager as part of a long-term investment strategy.

Inventories are valued at the lower of cost or market.

Investments are stated at fair value based upon quoted market prices.

The Foundation is named as beneficiary of several perpetual trusts and charitable remainder trusts which are administered by third parties. The perpetual trusts are reported in the permanently restricted net asset class and the reported value is measured by the fair value of the trust assets as provided by trustees. Distributions from these trusts are unrestricted and are reported as investment return. Those trusts in which the Foundation has a remainder interest are reported in the temporarily restricted net asset class at the present value of the estimated future benefit to be received when the trust assets are distributed.

Land is reported at cost. Building and equipment are reported at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, ranging from five to twenty-five years.

Grants awarded by the Foundation usually cover a period of one to three years. The Foundation accrues grants and awards not disbursed at year-end but specifically committed to designated grantees.

Contributions, including unconditional promises to give, are recognized as revenue in the period received or pledged. Bequests are recognized as revenue when the Foundation has an irrevocable right to the gift. Related receivables are generally due within one year.

Government and certain foundation and corporate grants are accounted for as exchange transactions whereby revenue is recognized when related expenses are incurred. Amounts received but not yet expended are reported as refundable advances.

The Foundation receives corporate sponsorships in connection with WalkAmerica and other special events. Although most of these sponsorship arrangements are considered exchange transactions under which sponsors receive direct benefits, the revenue earned is reported with Campaign contributions.

# MARCH OF DIMES BIRTH DEFECTS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

### 1. cont'd

In 2004 and 2003, the Foundation recognized \$2,232,000 and \$1,996,000, respectively, of contributed services revenue (related expenses are included in professional fees) provided by doctors, nurses and other health care professionals who serve on its Research and Program Service Committees. Many other volunteers have made significant contributions of time to the Foundation's program and supporting functions. The value of these contributed services does not meet the criteria for recognition and, accordingly, is not recognized in the accompanying financial statements.

The estimated fair value amounts for specific groups of financial instruments are presented within the footnotes applicable to such items. The fair value of financial instruments for which estimated fair value amounts have not been specifically presented is estimated to approximate the related book value.

Certain reclassifications were made to the 2003 comparative information to conform to the 2004 financial statement presentation.

### 2. INVESTMENTS

Investments at December 31, 2004 and 2003 consist of (in thousands):

	<u>2004</u>	<u>2003</u>
Certificates of deposit .....	\$ 850	\$ 848
U.S. Treasury obligations and repurchase agreements.....	45,576	31,244
Money market funds .....	9,666	11,629
Mutual funds - bonds and equities.....	11,755	10,397
Common stock.....	<u>28,222</u>	<u>24,983</u>
Total investments .....	<u>\$96,069</u>	<u>\$79,101</u>

The Foundation reports as operating revenue the amount of investment return approved by the Board of Trustees for spending. This amount includes return on investments held as part of a long-term investment strategy as well as return on cash and cash equivalents. The difference between the actual return and the authorized spending level is reported as non-operating activity. The components of investment return are as follows (in thousands):

	<u>2004</u>	<u>2003</u>
Interest and dividends.....	\$3,211	\$2,523
Net appreciation in fair value of investments.....	<u>2,691</u>	<u>7,212</u>
Total investment return.....	5,902	9,735
Amount appropriated for operations.....	<u>(3,000)</u>	<u>(3,000)</u>
Investment return greater than amount appropriated for operations.....	<u>\$2,902</u>	<u>\$6,735</u>



# MARCH OF DIMES BIRTH DEFECTS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

### 3. GRANTS AND AWARDS PAYABLE

Grants and awards payable at December 31, 2004 are scheduled to be paid as follows:

<u>Year ending December 31</u>	<u>Amounts (in thousands)</u>
2005.....	\$ 16,840
2006.....	6,343
2007.....	<u>644</u>
Less: discount to present value.....	<u>(458)</u>
Grants and awards payable, net.....	<u>\$ 23,369</u>

The Foundation has recorded grant expense of \$1,000,000 in both 2004 and 2003 for grants to the Salk Institute for Biological Studies. The President of the Foundation is a volunteer board member of the Salk Institute.

### 4. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2004 and 2003 were available for the following purposes (in thousands):

	<u>2004</u>	<u>2003</u>
Remainder trusts in the custody of others.....	\$ 1,125	\$688
Biomedical research.....	116	225
Chapter programs and other.....	<u>3,361</u>	<u>3,676</u>
Total.....	<u>\$4,602</u>	<u>\$4,589</u>

Permanently restricted net assets at December 31, 2004 and 2003 consist of perpetual trusts held by others of \$8,192,000 and \$8,005,000, respectively, and Foundation endowments, the principal of which must be invested in perpetuity with income expendable to support donor specified purposes, principally research.

# MARCH OF DIMES BIRTH DEFECTS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

### 5. LAND, BUILDING, AND EQUIPMENT

Land, building, and equipment as of December 31, 2004 and 2003 consist of (in thousands):

	<u>2004</u>	<u>2003</u>
Land.....	\$ 918	\$ 918
Building and building and leasehold improvements.....	24,536	24,364
Furniture and other equipment.....	<u>13,283</u>	<u>12,165</u>
Total.....	38,737	37,447
Less: accumulated depreciation.....	<u>(27,698)</u>	<u>(25,767)</u>
Land, building, and equipment, net.....	<u>\$11,039</u>	<u>\$11,680</u>

### 6. MORTGAGE NOTE PAYABLE

During 1993, the Foundation issued \$9,950,000 Dormitory Authority of the State of New York/March of Dimes Birth Defects Foundation Insured Revenue Bonds, Series 1993 to retire the Series 1987 bonds which financed the National Office construction project.

The interest rate on the Series 1993 Bonds approximates 5.6 percent, with maturities through July 1, 2012. Annual principal payments and sinking fund requirements for the next five years are: 2005 - \$545,000; 2006 - \$575,000; 2007 - \$610,000; 2008 - \$645,000, and 2009 - \$680,000.

The Foundation pledged its future revenue and existing properties to the Dormitory Authority to secure payment of all liabilities and performance of all obligations and agreed that a minimum of 95 percent of the National Office property shall be occupied by or used primarily for activities related to the purposes of the Foundation. The Series 1993 Bonds contain certain financial covenants to be maintained by the Foundation.

Debt service reserve funds held by the bond trustee are included in cash (\$151,000 and \$171,000 at December 31, 2004 and 2003, respectively) and investments (\$920,000 and \$891,000 at December 31, 2004 and 2003, respectively).

# MARCH OF DIMES BIRTH DEFECTS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

### 7. ALLOCATION OF JOINT COSTS

In 2004 and 2003, the Foundation conducted activities, principally direct response, that included fund-raising appeals as well as program components. The joint costs incurred were allocated as follows (in thousands):

	<u>2004</u>	<u>2003</u>
Public and professional education.....	\$19,140	\$17,032
Fund raising.....	<u>17,570</u>	<u>19,207</u>
Total.....	<u>\$36,710</u>	<u>\$36,239</u>

### 8. COMMITMENTS

The following is a schedule of the approximate future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2004:

<u>Year ending December 31</u>	<u>Amounts (in thousands)</u>
2005.....	\$6,694
2006.....	5,245
2007.....	4,081
2008.....	2,848
2009 .....	2,065
2010 and thereafter.....	2,217

Total rental expense was \$7,270,000 and \$7,077,000 in 2004 and 2003, respectively.

### 9. RETIREMENT PLANS

The Foundation has two retirement plans - a noncontributory defined benefit pension plan covering all employees who meet certain eligibility requirements and, effective January 1, 2004, a defined contribution match for employees who elect to participate in the 403b Tax Deferred Annuity Plan. Pension expense relating to the 403b Tax Deferred Annuity Plan for 2004 was \$513,000. The defined benefit plan was amended effective December 31, 2003 to change the benefit formula and the normal form under which benefits will be paid, as well as to eliminate certain ancillary benefits. These amendments had the net effect of increasing the benefit obligation by approximately \$3.3 million, in 2003. The Foundation's contributions are made in accordance with the Employee Retirement Income Security Act of 1974.

# MARCH OF DIMES BIRTH DEFECTS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

9. cont'd

In addition to providing pension benefits, the Foundation sponsors two unfunded postretirement benefit plans that cover all employees who meet certain eligibility requirements. One plan provides health care benefits and the other provides life insurance benefits. The health care plan is contributory, with participants' contributions adjusted annually; the life insurance plan is noncontributory.

The following tables provide information with respect to the plans as of and for the years ended December 31, 2004 and 2003 (in thousands).

	Pension Benefits		Other Benefits	
	2003			
	as restated			
	<u>2004</u>	<u>(note 12)</u>	<u>2004</u>	<u>2003</u>
<i>Change in projected benefit obligation</i>				
Benefit obligation at January 1.....	\$102,062	\$79,861	\$35,057	\$32,251
Service cost.....	2,194	3,464	916	968
Interest cost.....	6,301	5,577	1,866	2,101
Participant contributions.....	-	-	176	110
Plan amendments.....	-	3,272	-	-
Actuarial loss.....	4,215	13,298	4,542	1,513
Impact of Medicare Rx.....	-	-	(5,544)	-
Benefit payments.....	<u>(3,924)</u>	<u>(3,410)</u>	<u>(2,006)</u>	<u>(1,886)</u>
Benefit obligation at December 31....	<u>\$110,848</u>	<u>\$102,062</u>	<u>\$35,007</u>	<u>\$35,057</u>
<i>Change in fair value of plan assets</i>				
Fair value of plan assets at January 1..	\$66,878	\$50,431	\$ -	\$ -
Actual return on plan assets.....	7,475	11,857	-	-
Employer contributions.....	9,760	8,000	1,830	1,776
Participant contributions.....	-	-	176	110
Benefit payments.....	<u>(3,924)</u>	<u>(3,410)</u>	<u>(2,006)</u>	<u>(1,886)</u>
Fair value of plan assets at				
December 31.....	<u>\$80,189</u>	<u>\$66,878</u>	<u>\$ -</u>	<u>\$ -</u>

# MARCH OF DIMES BIRTH DEFECTS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

9. cont'd

	Pension Benefits		Other Benefits	
		2003		
		as restated		
	2004	(note 12)	2004	2003
<i>Amounts recognized in the balance sheets</i>				
Funded status at December 31.....	\$(30,659)	\$(35,184)	\$(35,007)	\$(35,057)
Unrecognized prior service cost.....	3,706	4,662	-	-
Unrecognized loss.....	<u>32,925</u>	<u>33,744</u>	<u>3,885</u>	<u>4,887</u>
Prepaid (accrued) benefit cost before minimum pension liability adjustments.....	5,972	3,222	( 31,122)	(30,170)
Intangible asset.....	(3,706)	(4,662)	-	-
Accumulated minimum pension liability charge to net assets.....	<u>(24,002)</u>	<u>(24,982)</u>	<u>-</u>	<u>-</u>
Accrued benefit liability.....	<u><u>\$(21,736)</u></u>	<u><u>\$(26,422)</u></u>	<u><u>\$(31,122)</u></u>	<u><u>\$(30,170)</u></u>

The accumulated benefit obligation (ABO) at December 31, 2004 and 2003 was \$101,925 and \$93,300 (as restated), respectively, which exceeded plan assets by \$21,736 and \$26,422 (as restated), respectively. The underfunded ABO is the minimum liability required to be recognized in the balance sheets. In addition, the Foundation has recorded an intangible asset (included in inventory and other assets in the balance sheets) equal to unrecognized prior service cost.

### *Net periodic benefit cost*

Service cost.....	\$2,194	3,464	\$ 916	\$ 968
Interest cost.....	6,301	5,577	1,866	2,101
Expected return on plan assets.....	(5,918)	(4,504)	-	-
Amortization of prior service cost.....	956	489	-	-
Amortization of net loss.....	<u>3,477</u>	<u>2,611</u>	<u>-</u>	<u>-</u>
Total net periodic benefit cost.....	<u><u>\$7,010</u></u>	<u><u>\$7,637</u></u>	<u><u>\$2,782</u></u>	<u><u>\$3,069</u></u>

### *Weighted average assumptions at end of year*

Discount rate.....	6.00%	6.25%	6.00%	6.25%
Rate of compensation increase.....	3.50%	3.50%	N/A	N/A

### *Weighted average assumptions at beginning of year*

Discount rate.....	6.25%	6.75%	6.25%	6.75%
Expected return on plan assets.....	8.50%	8.50%	N/A	N/A
Rate of compensation increase.....	3.50%	3.50%	N/A	N/A

# MARCH OF DIMES BIRTH DEFECTS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

9. cont'd

	Pension Benefits 2003 as restated (note 12)		Other Benefits	
	<u>2004</u>		<u>2004</u>	<u>2003</u>
<i>Assumed health care cost trend rates</i>				
Health care cost trend rate assumed for next year.....	N/A	N/A	10.00%	8.50%
Ultimate rate.....	N/A	N/A	5.00%	5.00%
Year that the ultimate rate is reached.....	N/A	N/A	2015	2011
Impact of one-percentage-point change in assumed health care cost trend rates				
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Effect on service cost and interest cost for 2004.....	N/A	N/A	\$ 445	\$ (356)
Effect on postretirement benefit obligation at December 31, 2004.....	N/A	N/A	3,204	(2,876)

The following table presents information with respect to pension plan assets:

	Target Asset Allocation <u>2005</u>	Actual Allocation at December 31	
		<u>2004</u>	<u>2003</u>
Plan assets			
Equity securities.....	45 – 75%	61%	74%
Debt securities.....	15 – 25%	21%	24%
Real estate.....	2.5 – 7.5%	5%	2%
Other.....	7 – 23%	14%	0%

Based upon historically indexed data, the assumed long term rates of return for 2005 are: equity securities - 10%; debt securities - 5.0%; real estate - 8.5%; other assets including Absolute Return Fund and Commodity Index – 10.0% which produces an expected composite rate of return of 8.5%.

The Foundation has a Pension Investments Committee comprised of staff, volunteers, and external consultants who meet on a quarterly basis to review asset performance and allocation. The committee has an adopted set of Investment Policies and Guidelines that was approved by the Foundation's Board of Trustees and serves as a guide for allocating plan assets among various asset classes and investment managers. Managers are evaluated against prevalent indices and changes are made when deemed necessary.

# MARCH OF DIMES BIRTH DEFECTS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

9. cont'd

Projected contributions and benefit payments for the defined benefit pension and postretirement plans are as follows:

	<u>Pension Benefits</u>	<u>Other Benefits reflecting Medicare Rx subsidy</u>	<u>Medicare Rx subsidy</u>	<u>Other Benefits not reflecting Medicare Rx subsidy</u>
Expected contributions for 2005:				
Employer.....	\$ 9,580	\$ 1,776	\$ -	\$ 1,776
Employee.....	-	171	-	171
Estimated future benefit payments reflecting expected future service for the year(s) ending:				
December 31, 2005.....	\$ 4,335	\$ 1,947	\$ -	\$ 1,947
December 31, 2006.....	4,629	1,831	224	2,055
December 31, 2007.....	4,879	1,931	244	2,175
December 31, 2008.....	5,203	2,038	265	2,303
December 31, 2009.....	5,526	2,138	294	2,432
December 31, 2010 – December 31, 2014.....	32,890	12,454	2,029	14,483

Expected employer pension contributions were developed reflecting Congressional funding relief that has been granted for 2004 and 2005.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) was signed into law in December 2003. The accrued postretirement benefit obligation as of December 31, 2004 includes the economic impact associated with the federal subsidy provided by the Act. Accordingly, the net periodic postretirement benefit cost in 2004 was reduced by \$855,000.

## 10. CALIFORNIA BIRTH DEFECTS MONITORING PROGRAM

Because of the separate and distinct nature of the program conducted by CBDMP, its expenses are aggregated in the statements of functional expenses. The following table presents CBDMP's expenses by natural classification.

	<u>2004</u>	<u>2003</u>
Salaries and employee benefits.....	\$3,289	\$3,694
Professional fees.....	1,721	1,281
Occupancy and telephone.....	411	519
Travel, lodging, conferences and meetings .....	230	225
Printing, supplies and all other.....	<u>619</u>	<u>853</u>
Total.....	<u>\$6,270</u>	<u>\$6,572</u>

# MARCH OF DIMES BIRTH DEFECTS FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

### 11. TAX STATUS

The March of Dimes Birth Defects Foundation (including its National Office and Chapters) is a not-for-profit voluntary health agency, exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (the Code), and contributions to it are tax deductible as prescribed by the Code.

The Foundation has been classified as an organization that is not a private foundation under Section 509(a)(1) and has been designated as a "publicly supported" organization under Section 170(b)(1)(A)(vi) of the Code.

### 12. RESTATEMENT OF THE 2003 FINANCIAL STATEMENTS

The accompanying balance sheet, statement of activities, and statement of cash flows as of and for the year ended December 31, 2003 have been restated to correct an error by the Foundation's former outside actuary in the 2003 calculation of the actuarial loss (note 9) which resulted in a \$5,779,000 understatement in the previously reported actuarially determined accumulated benefit obligation of the Foundation's defined benefit pension plan. This error resulted in a corresponding understatement in the change in minimum pension liability and the accrued postretirement and pension benefit costs. The impact on the previously reported amounts follows (in thousands);

	<u>As previously reported</u>	<u>As restated</u>
Balance Sheet – December 31, 2003:		
Accrued postretirement and pension benefit costs.....	\$ 50,813	\$ 56,592
Total liabilities.....	100,725	106,504
Total unrestricted net assets.....	12,482	6,703
Total net assets.....	28,834	23,055
Statement of Activities – Year ended December 31, 2003:		
Decrease (increase) in minimum pension liability.....	3,366	(2,413)
Increase in unrestricted net assets.....	12,481	6,702
Increase in total net assets.....	12,915	7,136
Unrestricted net assets at December 31, 2003.....	12,482	6,703
Total net assets at December 31, 2003.....	28,834	23,055
Statement of Cash Flows – Year ended December 31, 2003		
Increase in net assets.....	12,915	7,136
Increase in accrued postretirement and pension benefit costs.....	346	6,125



MARCH OF DIMES  
Supplementary Chapter  
Schedule of Activities  
For the Year Ended December 31, 2004

TENNESSEE

	Total
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Revenue:	
Campaign contributions.....	3,918,325
Less:direct benefits to donors.....	<447,633>
	<hr/>
Net campaign contributions.....	3,470,692
Bequests.....	107,974
Government, foundation and corporate grants.....	59,074
Major gifts and other contributions...	102,844
Contributed services.....	0
Investment income.....	29,574
Program service revenue.....	335
Operational Asst & Transfers from N.O.	148,000
Other.....	9,905
Net assets released from restrictions.	0
	<hr/>
Total revenue.....	3,928,398
	<hr/>
Expenses:	
Research.....	0
Public Health.....	731,530
Professional Health.....	133,653
Community Services.....	897,601
Medical Services.....	0
Management & General.....	140,228
Fund Raising.....	253,541
National Programs.....	1,826,015
	<hr/>
Total Expenses.....	3,982,568
	<hr/>
Change in net assets.....	<54,170>
Net assets at beginning of year.....	620,682
	<hr/>
Net assets at end of year.....	566,512
	<hr/>

See accompanying note to supplementary chapter schedule of activities.

## MARCH OF DIMES BIRTH DEFECTS FOUNDATION

Note to Supplementary Chapter Schedule of Activities  
For the Year Ended December 31, 2004

### BASIS OF PRESENTATION

The information in the Supplementary Chapter Schedule of Activities is presented in a format and using terminology consistent with the Foundation's general ledger. Therefore, some information presented in the Supplementary Chapter Schedule of Activities may differ from information presented in the basic financial statements where all significant intra-Foundation accounts and transactions are eliminated. For example, the Supplementary Chapter Schedule of Activities includes "Operational Asst & Transfers from N.O." revenue and "National Programs" expense which represent assistance and transfers between the chapters and the Foundation's National Office and are eliminated from the basic financial statements.