



2015-2017 **Financial Plan** United States

Children's Miracle Network Hospitals

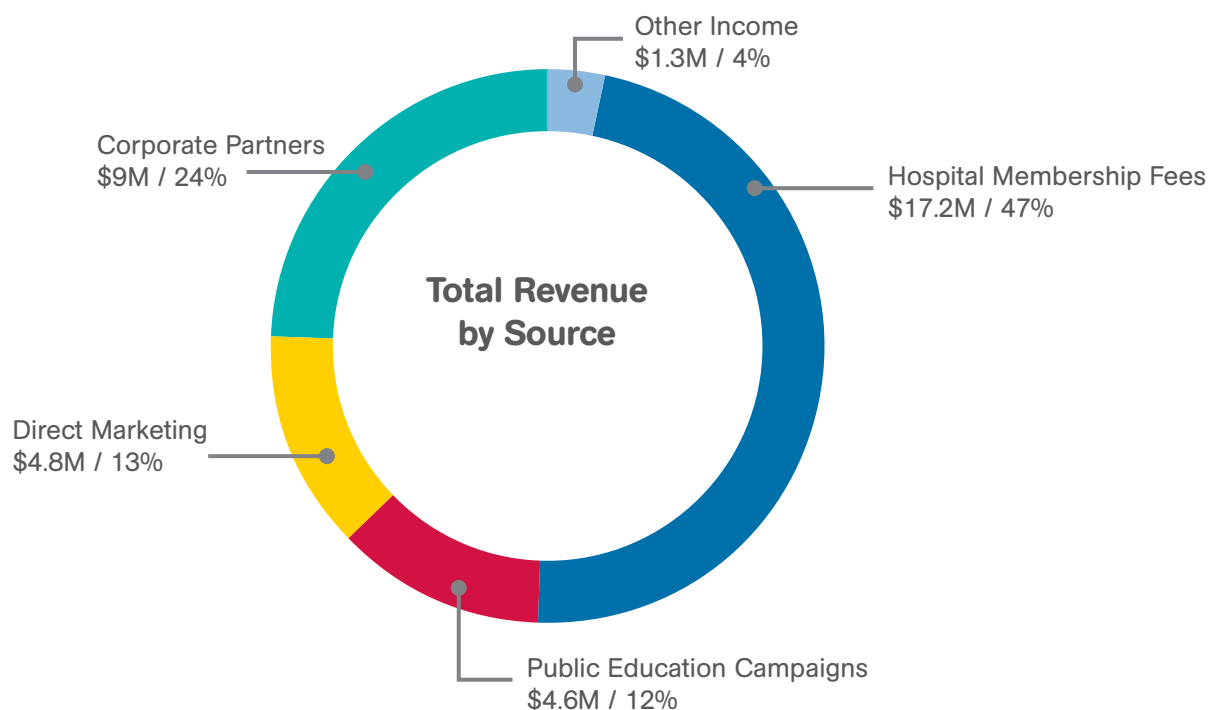
Need for Growth

In 2012, Children's Miracle Network Hospitals' Board of Trustees adopted a new strategic plan that outlined specific and aggressive strategies for growth, including a goal to quadruple fundraising for member hospitals and hospital foundations by 2022. This means raising \$1 billion annually. Reaching this bold goal is dependent on achieving key fundraising and awareness milestones and, like any business, we will have to invest in order to grow.

In the past two years, Children's Miracle Network Hospitals has realigned its organizational structure and squeezed as much efficiency as possible from its current resources. This efficiency allowed the network to produce double-digit growth in that same time frame.

To meet the goals outlined in the strategic plan, we need to increase the overall capacity of the network. Along with each new fundraising partner comes the inherent cost of additional fundraising campaign materials and staff support; thus, supplementary people and infrastructure will be needed to support new partners, programs and events. The strategic plan also calls for innovation—research and development, market testing and new concept launches. Another important ingredient required to increase fundraising is an awareness campaign with unified messaging that both helps the public understand the philanthropic needs of children's hospitals and establishes a call to action. To accomplish these important objectives, we need a new operating model that can sustain this level of growth.

Children's Miracle Network Hospitals 2012 North American Business Model



Current Model Overview

Our current North American Operating Budget, which we adopted in 2007, comes from five main sources of revenue:

- Annual membership fees
- A public education and sponsor recognition campaign (Option B)
- Direct marketing
- Corporate underwriting
- Other income

This model was designed with modest growth projections and will not support quadrupling fundraising. If we continue on the current model's path, the fundraising estimates in 2022 are approximately \$500 million, or about half our goal of \$1 billion.



Fundraising Projections

The strategic plan sets the compound annual growth rate needed at an average of 8 percent to quadruple fundraising for member hospitals and hospital foundations by 2022. Each fundraising category will have a different growth rate, which was determined by reviewing recent growth and considering future growth potential. The forecast projections through 2017 will create a solid foundation to quadruple funds by 2022.

North American Fundraising Growth Projections

		YOY GROWTH RATE		YOY GROWTH RATE	* VALUES IN MILLIONS						
			ACTUAL		FORECAST						CAGR
Fundraising Category	2011	2011	2012	2012	2013	2014	2015	2016	2017	2012-17	
Corporate Partnerships	\$ 148.8	8.8%	\$ 178.1	19.7%	\$ 190.5	\$ 200.9	\$ 218.0	\$ 236.6	\$ 256.6	7.6%	
Corporate Underwriting	8.5	2.3%	9.5	11.9%	7.3	7.4	8.1	8.8	9.5	0.0%	
Radiothon	41.6	-8.6%	39.3	-5.5%	40.1	40.9	41.7	42.6	43.4	2.0%	
Hispanic	6.5	new	8.2	26.2%	10.0	9.0	10.8	13.0	15.6	13.7%	
Youth/Dance Marathon	10.7	40.3%	13.3	24.8%	16.1	19.9	24.3	29.6	36.1	22.1%	
Digital/Extra Life	1.2	new	2.1	69.4%	3.0	6.8	9.0	12.0	16.0	50.0%	
National Events	2.3	new	1.6	-29.2%	2.3	2.1	2.3	2.5	2.8	11.7%	
Telethon	10.4	137.0%	11.9	14.8%	14.3	14.3	14.3	14.3	14.3	3.7%	
Direct Mail	4.5	13.2%	5.9	31.1%	6.5	6.8	7.1	7.5	7.8	5.9%	
Cause Innovation	-		-		-	5.0	8.5	14.5	35.0		
Local	29.7	6.1%	30.9	4.2%	33.9	34.6	35.3	36.0	36.7	3.5%	
Total Fundraising	264.1	12.6%	300.8	13.9%	324.0	341.2	369.8	402.7	454.4	8.6%	
Annual \$ Change	29.6		36.7		24.2	25.7	28.0	33.9	52.7		
Annual Growth Rate	12.6%		13.9%		7.7%	5.3%	8.4%	8.9%	12.8%		



Cost Projections

Children's Miracle Network Hospitals' national costs have remained in the range of \$0.11 to \$0.13 per dollar raised for the past several years. In order to determine the budget needed to attain quadrupled fundraising in 2022, we identified key revenue drivers—Corporate Partnerships, Youth/Dance Marathon, Radiothon, Hispanic Initiatives, Digital/Extra Life, National Events, Telethon and Direct Mail. We then looked at the cost drivers in each of those categories and projected the budget growth rates required to support fundraising to \$1 billion annually by 2022.

CMN Hospitals North American Cost Projections

	ACTUAL	ACTUAL	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST
Cost Category	2011	2012	2013	2014	2015	2016	2017
Direct Costs (Fundraising Program Service)							
Corporate Partnerships	7,380,641	7,754,809	9,108,934	10,032,477	10,859,100	11,635,412	12,448,531
Radiothon	1,836,070	1,833,232	1,999,249	1,927,857	2,101,282	2,164,320	2,377,866
Hispanic	698,755	802,584	795,936	773,180	860,884	1,002,758	1,173,227
Youth/Dance Marathon	374,271	456,329	601,815	655,666	790,376	979,823	1,201,833
Digital/Extra Life	852,905	915,521	774,972	1,053,935	1,244,714	1,561,732	1,967,898
National Events	160,371	441,931	843,026	1,089,000	1,149,500	1,138,005	1,251,806
Telethon	821,000	645,000	300,000	300,000	315,000	330,750	347,288
Direct Mail	3,126,115	3,604,700	3,739,103	3,895,858	4,090,651	4,295,183	4,509,942
Cause Innovation	-	1,533,094	1,869,388	1,696,136	2,311,500	3,229,200	4,133,100
Local	-	-	-	-	-	-	-
Direct Costs (Awareness Program Service)							
Awareness	11,186,194	7,848,383	9,276,414	9,745,748	10,754,246	11,371,572	12,030,401
Indirect Costs							
General & Administrative	5,232,160	4,920,040	5,454,610	6,830,183	7,035,088	7,246,141	7,463,525
Hospital Relations	1,544,479	1,851,033	2,421,618	2,906,715	2,909,945	3,084,541	3,654,274
Total CMN Hospitals Cost	33,212,960	32,606,656	37,185,064	40,906,754	44,422,285	48,039,438	52,559,691
Total CMN Hospitals Cost/Dollar Raised	0.13	0.11	0.11	0.12	0.12	0.12	0.12

Guiding Principles

As we considered new ways to fund the anticipated growth, we developed guiding principles to help evaluate potential funding sources.

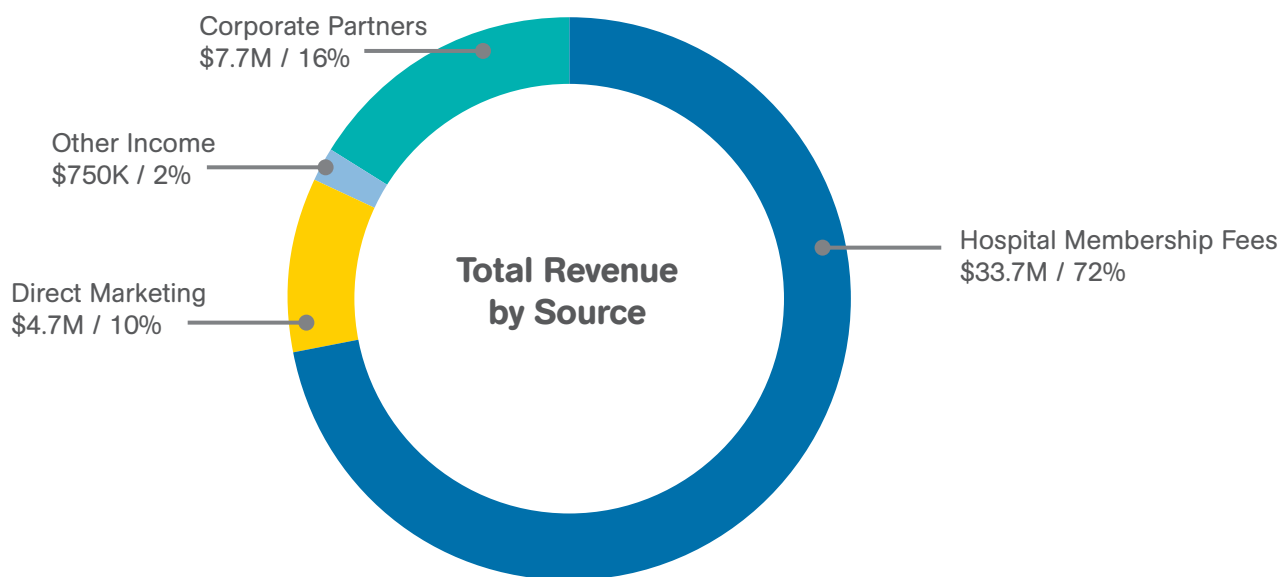
- **Scalable:** The new model must generate enough funds to cover the projected operating budget needed to quadruple fundraising for member hospitals by 2022.
- **Transparent:** The new model must be open for scrutiny by key stakeholders.
- **Accountable:** The new model must provide accountability for and return on invested funds. Changes in Membership fees are linked to fundraising results.
- **Country - Specific:** The new model must be sensitive to the differences and opportunities in the U.S. and Canada.

New U.S. Funding Model

Funding Source Components of the Model

The new U.S. operating model will consist of a diversified set of funding sources, including Hospital Membership Fees, Underwriting and Corporate Sponsorships, Direct Marketing/ Radiothon Back End Optional Service Fees, Other/Interest Income and a potential Transformational Gift.

Children's Miracle Network Hospitals 2015 U.S. Business Model



New U.S. Funding Model, continued...

U.S. Hospital Membership Fee

The New U.S. Hospital Membership Fee will replace all current funding from hospitals except optional Direct Marketing and Radiothon Back End Collection Services. Examples of costs replaced by the new model are the Hospital Membership Fee, Optional Hospital Public Awareness Campaign Fee (Option B Fee), campaign cost invoices, credit card fee invoices, and Celebration and Region Meeting Registration Fees and Lodging for one person per market.

There are two basic components of the New Hospital Membership Fee: a Fixed Base Fee and a Variable Fee component.

Fixed Base Fee: The U.S. Fixed Base Fee will be assessed based on the U.S. census population of the market areas as follows.

Market Population	Annual Fixed Base Fee
0-1,000,000	\$45,000
1,000,001-2,000,000	\$85,000
2,000,001-3,000,000	\$125,000
3,000,001-4,000,000	\$165,000
4,000,001+	\$205,000

Variable Fee: The U.S. Variable Fee for each market will be based on a percentage of each individual market's current-year fundraising and will be invoiced quarterly in coordination with the funds disbursement cycle. The percentage for the duration of this financial plan will remain at 5.5 percent of eligible funds raised and will be reviewed in three years. Eligible funds are defined as Total Fundraising per the Performance Metrics Report System less Local Funds Raised and optional Direct Marketing Campaigns. The variable fee provides the accountability in the guiding principles because fees increase or decrease as fundraising increases or decreases.

Fundraising Category	Variable Fee Percentage
Corporate Partner Fundraising	5.5%
Programs & Events Fundraising	5.5%
National Events	5.5%
Local Fundraising*	0.0%
Direct Marketing Fundraising	0.0%

* Local fundraising = Donations which are raised using the Children's Miracle Network Hospitals' name, logo, brand, or other evidence of association, but do not involve a CMN Hospitals' National Corporate Partner or National Program/ Event.

New U.S. Funding Model, continued...

Underwriting and Corporate Sponsorships

Children's Miracle Network Hospitals will continue to receive and pursue underwriting and corporate sponsorship opportunities at a very modest growth level over the next three years. This modest growth rate will allow the main focus to continue to be on fundraising for member hospitals.

Optional Direct Marketing/Radiothon Back End Service

Direct Marketing and Radiothon Back End Services will continue to be an optional offering for our member hospitals. Fees for these services will be governed by the relevant contract and separate from the Hospital Membership Fee detailed above.

Other/Interest

Miscellaneous donations and interest earned on invested funds will continue to be part of the operating funding, growing at a very modest rate over the next three years.

Transformational Gifts

Children's Miracle Network Hospitals will invest in resources necessary to begin developing an opportunity to receive a transformational gift. The goal of this investment will be to obtain a transformational gift in 3–5 years that would help support and sustain the growth necessary to quadruple fundraising by 2022. This gift could potentially be used to fund specific growth projects, reduce Hospital Membership Fees or could be invested at the discretion of the Board of Trustees or donor.

Operating Reserve

Annual budgets will allow for a yearly targeted income level to adequately maintain a level of operating reserve equal to approximately five months' worth of annual budgeted expenses by the end of the three-year period. This target level will ensure financial stability of the organization in the coming years.

Implementation Timeline

The New U.S. Operating Model will be effective beginning with the 2015 fundraising year. The impact of this implementation for the member hospitals beginning in June 2014 is outlined in the calendar below.

2014		
JUNE	Billed for 2015 annual membership fixed fee based on population tiers	NEW MODEL - 2015 Fundraising Year
JULY	Billed for 2014 campaign costs	CURRENT MODEL - 2014 Fundraising Year
AUGUST	Billed for 2014 campaign costs, credit card fees, Celebration Registration	CURRENT MODEL - 2014 Fundraising Year
SEPTEMBER	Billed for 2014 campaign costs	CURRENT MODEL - 2014 Fundraising Year
OCTOBER	Billed for 2014 campaign costs	CURRENT MODEL - 2014 Fundraising Year
NOVEMBER	Billed for 2014 campaign costs, credit card fees	CURRENT MODEL - 2014 Fundraising Year
DECEMBER	Billed for 2014 campaign costs	CURRENT MODEL - 2014 Fundraising Year

2015		
JANUARY	Billed for 2014 campaign costs	CURRENT MODEL - 2014 Fundraising Year
FEBRUARY	Billed for final 2014 campaign costs, credit card fees	CURRENT MODEL - 2014 Fundraising Year
MARCH		
APRIL	Variable Fee based on Actual Q1	NEW MODEL - 2015 Fundraising Year
MAY		
JUNE	Billed for 2016 annual membership fixed fee based on population tiers	NEW MODEL - 2015 Fundraising Year
JULY	Variable Fee based on Actual Q2	NEW MODEL - 2015 Fundraising Year
AUGUST		
SEPTEMBER		
OCTOBER	Variable Fee based on Actual Q3	NEW MODEL - 2015 Fundraising Year
NOVEMBER		
DECEMBER		

2016		
JANUARY		
FEBRUARY	Variable Fee based on Actual Q4	NEW MODEL - 2015 Fundraising Year

Payment Options

Invoices for Hospital Membership Fees will be sent according to the Implementation Timeline outlined above. The invoices will be due upon receipt. Due to the diversity of hospitals and foundations in the network and their individual budget circumstances, we will allow an annual election to withhold the variable portion of the Hospital Membership Fee from quarterly disbursements.



Communication Plan

September 2013

Operating Model Subcommittee reviews models and prepares recommendation.

October 2013

Full Board reviews Subcommittee's recommendation for a new operating plan.

Personal conversations with hospitals in top 2 quartiles which represent the most significant change in membership fees.

November 2013

Personal emails to those hospitals not personally contacted.

December 2013

Network-wide communication through multiple sources such as Executive Miracle Moment, Essentials, Monthly Program Director Call, Corporate Partner Newsletter, CMN Hospitals Staff Email.

All hospitals and hospital foundations have been notified of approved 2015 model by the end of the month.

January 2014

Full Board update and final vote on proposed U.S. plan.
U.S. Hospitals are notified of final decision.

April 2014

Full Board update and final vote on proposed Canada plan.
Canadian Hospitals/Foundations are notified of final decision.

Committee/Staff Members

Operating Model Subcommittee Members

John Bozard, President,
Arnold Palmer Medical Center
and Arnold Palmer Medical Center Foundation,
Orlando, Florida

Rick Merrill, President & CEO
Cook Children's Health Care System
Fort Worth, Texas

Dr. Jeff Sperring, MD
President & CEO
Riley Hospital for Children at Indiana University
Indianapolis, Indiana

Dr. Jim Shmerling, DHA
President & CEO
Colorado Children's Hospital
Denver, Colorado

Tom Sullivan, President
Ann & Robert H. Lurie Children's Hospital of
Chicago Foundation
Chicago, Illinois

Ted Garrard, President & CEO
SickKids Foundation
Toronto, Ontario

Cary D'Ortona, Chief Financial Officer
Arnold Palmer Medical Center
Orlando, Florida

Cora Case, Chief Financial Officer
Renown Children's Hospital
Renown Health
Reno, Nevada

Steve Weisz, President & CEO
Marriott Vacations Worldwide Corporation
Orlando, Florida

Andrea Thomas, SVP Sustainability
Walmart Stores, Inc.
Bentonville, Arkansas

Cathy Green Burns, Chair
Children's Miracle Network Hospitals
Board of Governors

Nana Mensah, Chairman & CEO
'XPORTS, Inc.
Nicholasville, Kentucky

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Bryce Barnett, Insights/Data Analysis
Nick Ward, Information Technology
Nate Graham, Hospital Relations
Sarah Waters, Corporate Partners
Joe Trevino, Programs & Events
April Poulsen, Cause Innovation
Miranda Barnard, Communications
Alison Portt, Canada
Tony Rehmer, Cause Innovation
Perry Esler, Canada