

Financial Q & A Communication

How did we get into this situation financially?

Decisions made over a long period of time, often for the right heartfelt reasons, were not necessarily the right business decisions for the long-term success and viability of the organization. This, coupled with changing market forces, has conspired to put us in a negative cash flow trend.

Won't economic recovery solve this issue?

Economic recovery will help the organization in the long-term but it does not solve the growing short-term financial crisis we are faced with.

We have 5,000 million dollars or \$5 billion in the endowment fund. How bad could it really be?

It is important to note that the value of the endowment fund is based on the current value of marketable securities. **IT DOES NOT EQUAL CASH.** The problem facing the organization is one of cash flow; too much is going out with not enough coming in.

If everything depends, financially speaking, on so many variables, then how can you say we are in so much trouble?

There are many variables at play, but the constant underlying theme is that we simply do not have enough cash flow to cover the overhead needed to operate the hospital system.

Why has the organization relied on a deficit spending budget since 2001? Why didn't leaders do anything about it?

Leaders have, in fact, acknowledged this challenge both in 2002/2003 and again in 2005. Substantive changes have not materialized and have been compounded over time by decisions to do more for children. Unfortunately, many of these choices to expand programs, build new facilities, or add pieces of equipment have further eroded our financial capacity.

How long do we REALLY have before the money runs out?

There is no set date, but the organization will clearly run into peril within 5 - 7 years. That is to say that decisions which, until now have been debatable, will be taken off the table and actions that are more drastic will simply happen in order to save the organization from certain failure.

Why don't we raise more money?

Development efforts are underway but the yield needed to address the ongoing operational issues facing the organization is simply not going to materialize. At a minimum, the organization would need \$200-\$300 million per year in **CASH or CASH EQUIVALENT DONATIONS** just to address the problem at hand. This speaks nothing of replenishment of the endowment, which is critical for the organization in the long-term.

Isn't third party pay going to solve this crisis or contribute a huge portion of the difference?

The difficulty with third party pay is that we simply don't know how much money we can recover through this effort until we actually start accepting it. What is known is the incredible amount of work it will take to get this program off the ground in some 20 hospitals across the system. Simply said, it will forever change the way Shriners Hospitals for Children operates both good and bad!

What do you mean when you say we changed our accounting reporting practices?

For years, the prospective values of return on investments were used to cover the delta between operating expenses and revenues as a "plug." This is not best practice and in this era of ever-increasing scrutiny, it was felt that we ought to accurately portray our numbers.

Why do we have to close hospitals? Why not simply take it out of other areas like headquarters and research or spread the cuts across all hospitals?

LET IT BE CLEAR THAT THERE ARE THREE OPTIONS GOING BEFORE THE DELEGATES FOR A VOTE. One option does include closures and was recommended by the Planning Committee to the Boards of Directors and Trustees for adoption and the Boards have, in fact, recommended this Option as the best pathway to financial stability for the organization. One of the other Options seeks across the board cuts of 25-30%, which will have devastating affects on the organization and could potentially force more hospitals to close than proposed under the option recommended by the Boards of Directors and Trustees. Yet another option seeks minimal cuts and ongoing operation at a significant deficit. All of the options contemplate increased revenues through third party pay but that is another decision point for the voting delegates.

If the hospitals have been running inefficiently why hasn't anyone at headquarters or the Board addressed the issue?

There have been many ongoing efforts to align hospital operational efficiency with operating budgets. However, it is also important to note that hospitals govern and influence many decisions at the local and even the national level, which supersede many of these directives. If the organization is to be successful in the long-term, then a better matrix of decision making needs to be in place in order to ensure the long-term fiscal health and viability of the organization.

We heard at the association meeting that the problem could be solved if seven or eight hospitals convert to ambulatory centers.

Staff examined this issue extensively and while true, that it does save money, it simply is not at a level or magnitude which addresses the fundamental cash flow problems at hand.

Where are you going to take care of all the kids?

First, our commitment is to those children we are caring for throughout North America. We will ensure that care is provided to them at another Shrine Hospital or perhaps another children's hospital in the region. Beyond this, in the short-term, there is little doubt we will take care of fewer kids BUT by addressing this problem now WE CAN GROW SHRINERS HOSPITALS FOR CHILDREN IN THE FUTURE. FAILURE TO ADDRESS THE PROBLEM NOW DESTROYS SHRINERS HOSPITALS FOR CHILDREN AND CARE FOR KIDS PERMANENTLY!

Is the negative press hurting donations?

The only indication that we have thus far is that people seem to be rallying around the hospitals and have indicated their desire to help by donating money.