

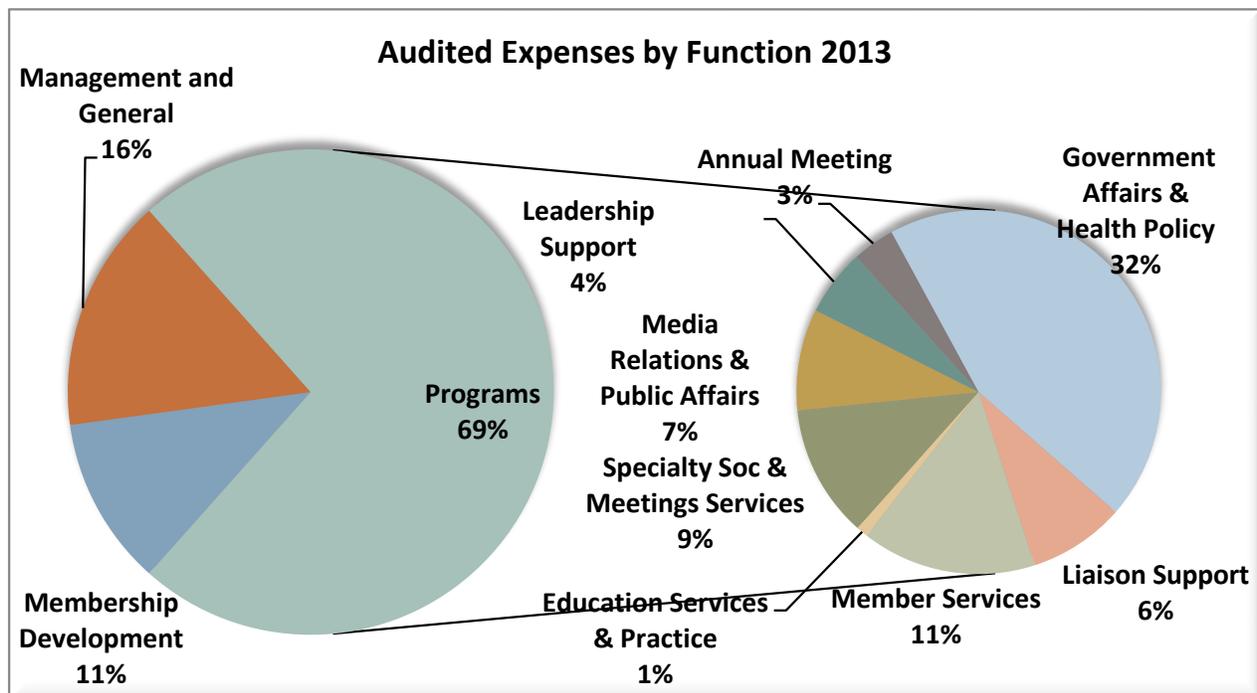
# NCMS Proposed Budget 2015

## 1 INTRODUCTION

The 2015 proposed budget has been balanced with no dues increase. During 2014, the NCMS Board of Directors undertook a strategic planning process and made several recommendation to the Finance Committee on directing resources to various departments in order to be consistent with the goals in the Strategic Plan and to grow the organization. These recommendations included:

- Deploy cash on hand to retire the building renovation debt in 2015.
- Continue to build toward a reserve fund goal of 24 months of operating expenses.
- Commit significant funding to membership marketing and technology.
- Fully fund the Kanof Institute for Physician Leadership (KIPL) for program expansion.

The NCMS Finance Committee requests that the NCMS House of Delegates consider and approve the budget, which includes some of these recommendations. The Board of Directors' recommendations are not funded wholly within this budget. Stagnant membership growth has resulted in very limited growth of membership dues. The Finance Committee continues to budget conservatively while recognizing the need to infuse resources into key areas to encourage membership growth and engagement.



## 2 NCMS Revenue

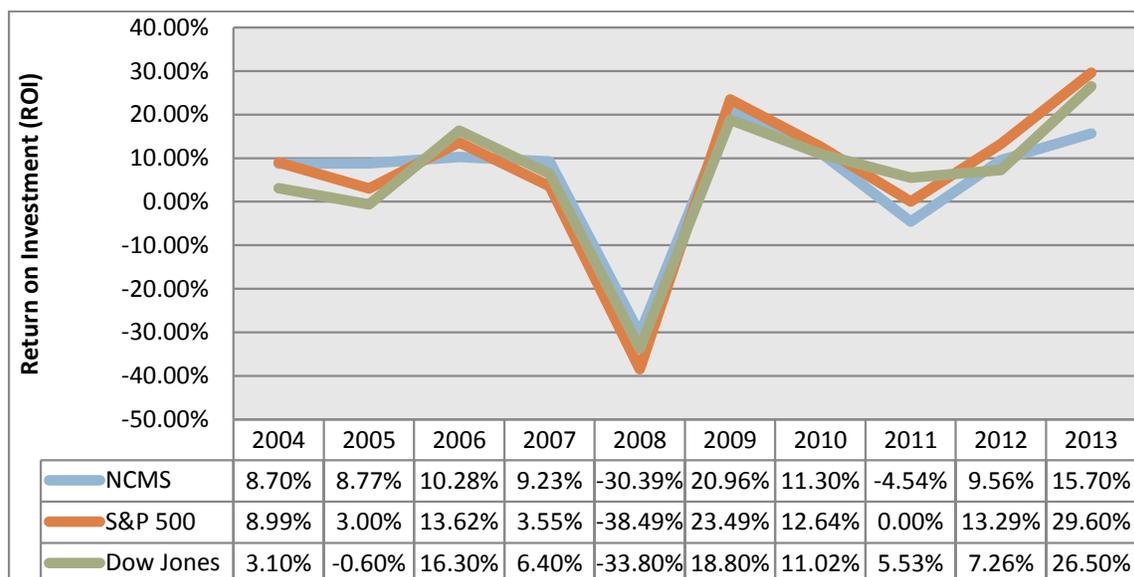
The NCMS is a membership organization relying on member dues as its main source of funding for programs, services and long-term viability of the organization. In 2013, membership dues revenue accounted for 62% of total NCMS revenues. 2014 dues revenues are consistent with 2013, and therefore the 2015 dues revenue projection remains conservative, projecting growth of dues revenue of three (3) percent. Of note:

- Full dues are \$430/per year.
- The most recent dues increase was in 2013, when dues increased from \$418 to \$430.

The average cost per active member for 2014 is estimated at \$580, versus \$430 of dues received per full dues paying member. Therefore, non-dues revenue categories remain a vital part of the annual budget, including the following:

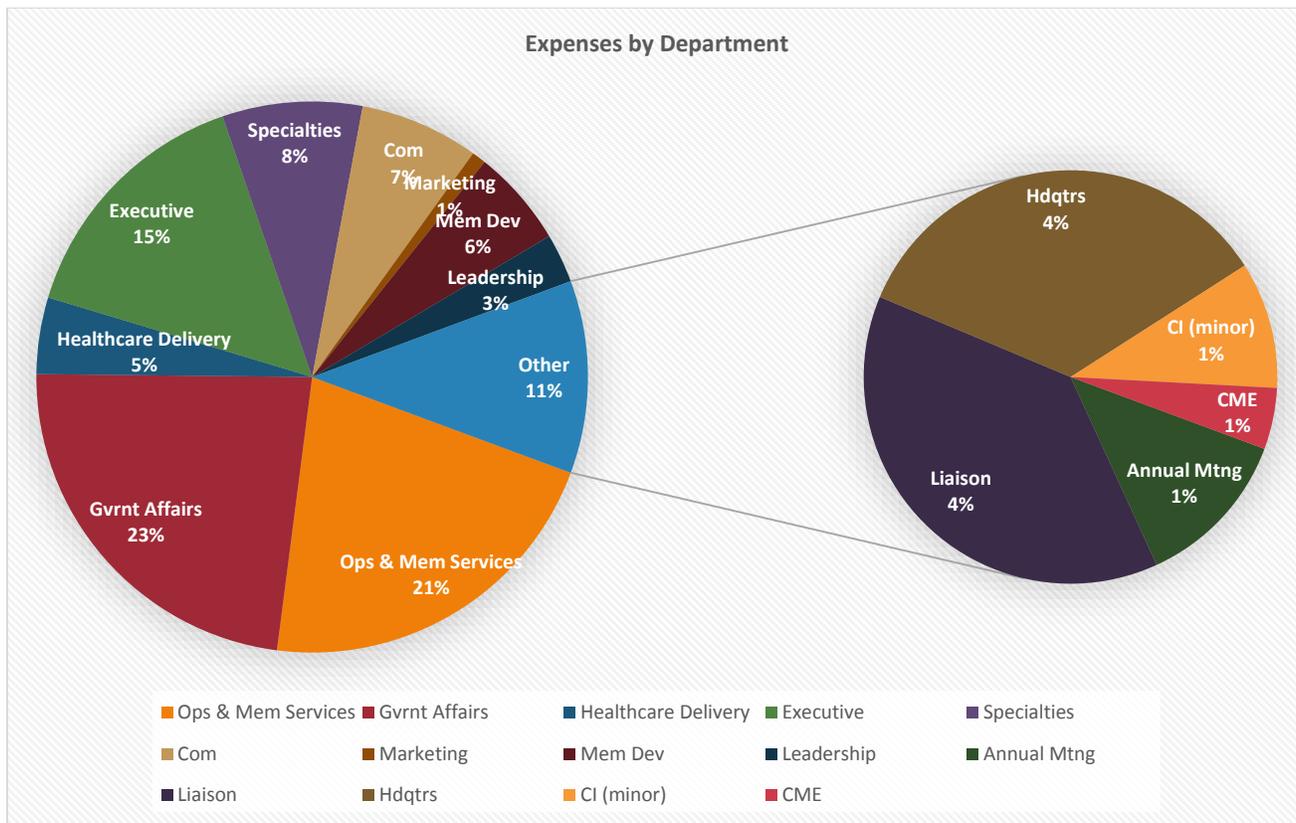
- Investment revenue continues to benefit the NCMS. The Finance Committee adheres to NCMS audit policy limiting budgeted investment revenue to five percent (5%) of a three-year average of investment income earned.
- The NCMS Employee Benefit Plan, a group benefit program for members, dependents and practice employees, continues to be a strong member benefit program. The revenue received by the NCMS represents a sponsorship fee, calculated based on the number of Plan participants. Due to fluctuations in participation and health plan market conditions, we continue to estimate this revenue conservatively.
- Annual Meeting revenue for 2014 is projected to exceed budget expectations due to exhibits and sponsorships, resulting in a slightly higher budget estimation for 2015.
- Rental income represents the most significant increase in budgeted revenue for 2015, due to completion of headquarters renovations. Two current tenants are moving to larger spaces with increased leasing amounts. Three new tenants will be in place by January 2015.
- Headquarters office services represents management contracts with state specialty and county medical societies. The budgeted revenue is expected to cover expenses for the Department's operations, not to produce any profit.
- Other categories are consistent with 2014.

**NCMS Investment Return Trends**



### 3 NCMS Expenses

The NCMS' largest expense is employing a professional staff of 30 at its headquarters building in Raleigh. The NCMS staff is organized into departments charged with carrying out the mission, programs and services of the organization. In the proposed 2015 budget, 64% of budget is salaries and benefits. Further, the proposed budget reflects expenses attributable to the following program areas:



Projected expenses include the following variances from the 2014 budget:

- The NCMS converted to TASC for employee benefits administration and ADP for payroll and HR compliance. The budget includes fees for these service providers.
- In 2014, the NCMS carried additional insurance coverage for building renovations. Those policies will not be needed in 2015, but policy adjustments will be made to reflect the adjusted value of the headquarters.
- The budget includes expense interest for the existing line of credit used for building renovations. The NCMS Board of Directors has set a goal of paying in full the line of credit in 2105, using investment gains and funds raised.
- The budget reflects some reorganization of Membership, Communications, and Health Care Delivery departments. A Marketing Department was NOT funded in full as requested by the Board of Directors. Revenue and expenses will be evaluated by the Finance Committee with the goal of funding this new department during 2015.

- NCMS committee activity has been migrating toward a Task Force model, whereby the Task Forces are appointed only when need and are time certain. Therefore, a line item has been included in the budget for these efforts.
- The NCMS Foundation grant remains at \$160,000, which includes the \$100,000 pledge to the Kanof Institute for Physician Leadership and a \$60,000 operating grant, which will not be paid to the Foundation unless it incurs an operating fund shortfall.
- Support for the NC Physicians Health Program and the NC Medical Journal is included.
- The headquarters facility budgets are increased with expectations of ongoing maintenance on the headquarters building. Any new renovations in 2015 will be for new tenants when committed.

At its May 2014 strategic planning meetings, the NCMS Board of Directors directed the Finance Committee to commit significant funding to membership marketing and technology. The proposed budget funds a stand-alone membership department, but does not add a marketing department or fund new technology to enhance the NCMS information and data systems or to assist its members. As these initiatives are more clearly defined, the Finance Committee will work to recommend ways to provide funding.

Also requested by the Board was full funding of the Kanof Institute for Physician Leadership (KIPL) for program expansion, which is not fully included in the proposed budget. The NCMS is working with the NCMS Foundation to budget these expenses through the Foundation, before considering additional funding on the part of the NCMS.

## 4 Headquarters Renovations

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The NCMS is in the third year of a complete renovation of the headquarters building, prompted by the need for asbestos abatement due to fireproofing materials that contained asbestos. In 2011 and at its subsequent meetings, the Board of Directors approved a three (3) year (2012-2014) staged approach to the renovation needs of the NCMS Headquarters building with the following goals:

- Control renovation costs and budget impact
- Manage a renovation budget with a total project estimate of \$5,000,000
- Use a portion of annual budget excess during the period 2012-2014 to fund renovations
- Limit drawdown from reserves to \$1,000,000
- Plan each year's renovations (2012-2014) independently, considering needs and funding sources
- Increase building efficiency to lower operating costs through energy savings

Asbestos abatement requires the affected space to be "gutted" and left in shell condition, requiring rebuilding of all office spaces. During the renovation, the remaining asbestos containing fireproofing materials were removed and all major electrical and HVAC systems were replaced or upgraded while practical. In addition, two current tenants signed leases for additional space and new tenants were procured, representing higher rental income to the NCMS.

The renovation was budgeted separately from the NCMS operating budget, in order to have minimal impact on program and services delivery to NCMS members. The project was financed with excess revenue (unspent budget and investment income), a line of credit and fund raising. The Finance Committee and the Board of Directors continue to monitor expenses and are projected to retire the line of credit in 2015.

The renovation is on target to be complete by the end of 2014, with a remaining, approximate 2,000 square feet available for lease to tenants or for use by the NCMS.