Board of Directors Meeting Minutes
Wednesday, December 11, 2013
Meeting by Telephone

Attendees: Betsey Bayless; Michael Belzer, MD; Steven Gabbe, MD; Timothy M. Goldfarb; George B. Hernández, Jr., JD; Michael Karpf, MD; David Lopez; Stephen W. McKernan; Santiago Muñoz; Jorge Orozco; Sheldon Retchin, MD, MSPH; Johnese Spisso, RN, MPA; Irene Thompson; Thomas P. Traylor; William B. Walker, MD
Excused: Alan D. Aviles; Reginald W. Coopwood, MD; Arthur A. Gianelli, MA, MBA, MPH
Staff: Rhonda Gold; Bruce Siegel, MD

Board of Directors Chair Thomas Traylor called the meeting to order and stated that the agenda was for the board to review the 2013 year-end projection and approve the 2014 proposed budget. He turned the meeting to David Lopez, treasurer, for presenting financial materials.

Lopez stated that the finance committee reviewed and approved the 2013 financial projection and 2014 proposed budget. He stated that the 2013 projected financial update reflects projected income of $8.07 million, $7.2 million in expenses, and an operating surplus of $877,000, before rebranding costs ($175,000) funded from reserves. The projected surplus is $77,000 less than last projected in October because of an allocation of more staff salary and fringe costs to the association rather than Essential Hospitals Institute. After taking into account last year's beginning net assets, staff projects total 2013 net assets of $6.13 million, an increase of $735,000 from budget. There were no questions asked.

Lopez presented the 2014 proposed budget, which includes an additional $100,000 contribution to restricted net assets to fund the anticipated expenses for the association's office relocation. This contribution is in addition to the $250,000 that has been set aside in 2012 and 2013. Gold stated that the proposed budget reflects ongoing activities to support the organization's new, five-year strategic plan. She stated that activities related to quality, innovation, and adaptation are reflected in the Institute's budget as part of the Research Center and Transformation Center work.

Lopez asked Gold to provide an overview of the proposed budget and to address board member's questions. Gold stated that budgeted 2014 revenue is $8.70 million, an increase of 8 percent (or $635,100) from the 2013 projection and approved budget. Of the $8.70 million, $5.15 million represents membership dues, which includes a 5 percent automatic dues increase; three new members for the full year; and two new members at half a year. Budgeted expenses of $7.83 million are 9 percent more than the 2013 projection, but are in line with the 2013 budget. The budgeted 2014 operating surplus is $877,000, before rebranding expenses ($100,000) funded from reserves—the same level as the 2013 projected operating surplus. After taking into account investment income, budgeted total net assets are $6.95 million, of which $350,000 is restricted for the office relocation. Gold reported that this budgeted ending net asset balance represents close to one year of the association's operating expenses in reserves, a level consistent with the auditors' recommendation.

Bayless asked for an update on the status of membership recruitment, to which Siegel responded that eight new members were recruited in 2013 and he expects four new members in early 2014. There were three membership losses in 2013, including two members that exited the inpatient business and one member that disengaged from the association. Siegel said the organization will undertake a dues restructuring initiative and present initial draft recommendations to the board for review in spring 2014, with the expectation of approval in the summer and processing of 2015 invoices in November. The goal of this restructure is not to gain new dues revenue, but to address parity issues and help with membership recruitment. Lopez suggested giving advance notice to members to allow time to adjust their budgets. Siegel agreed this will be important.

Lopez stated that the only budget uncertainty at this point is the costs of the office relocation. Gold and Siegel said staff will keep the board informed of potential costs. Lopez concluded that with the association's healthy bottom line, he would recommend the board's approval of the 2014 proposed budget. Lopez made a motion to accept the 2013 financial update, Spisso seconded the motion, and the board unanimously accepted the update. Traylor made a motion to approve the 2014 proposed budget, including a contribution to restricted net assets for the association's future office relocation. Walker seconded the motion and the board unanimously approved the 2014 proposed budget.

Gold presented a long-range financial forecast through 2017 for the association and Institute. She said the purpose of the forecast was to project the amount of revenue enhancements or expense reductions the organization would need to maintain an annual 5 percent profit margin. She reviewed the budget assumptions, which included a 5 percent annual dues increase and net gain of two full members per year; a 2 percent annual increase in external sponsorships; the rollover of existing grants; $260,000 to $300,000 in new grant funding; and the renewal of the Partnership for Patients contract. She stated that expenses are inflated by 3 percent to 4 percent annually and do not reflect future office relocation and space build-out costs for 2015. To achieve an annual 5 percent profit margin through revenue enhancements, expense reductions, or a combination, approximately a 2 percent to 3 percent reduction in overall annual operating expenses would need to be achieved. Gold stated that this information is a guide for the leadership team. Questions were addressed and the financial forecast and budget discussion was completed.

Siegel provided a brief overview of the recent congressional budget agreement and answered questions. The meeting was adjourned.

Submitted by:

Johnese Spisso

Johnese Spisso, *Secretary*