

American Dental Association Operating Fund**2014 Budget Summary by Division**

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	2012 Actual	2013 Budget	2014 Budget	2014 B v 2013 B Fav / (Unfav)	
				\$	%
Revenue					
Legal Affairs	76	62	85	23	37.1%
Government & Public Affairs	55	32	30	(2)	-6.3%
Communications	90	692	688	(4)	-0.6%
Membership, Tripartite Relations & Marketing	1,931	1,742	2,205	463	26.6%
Division of Global Affairs	101	-	-	-	0.0%
Conference & Meeting Services	12,443	11,220	10,690	(530)	-4.7%
Headquarters Building	3,831	3,227	2,030	(1,197)	-37.1%
Washington Building	1,709	1,782	1,781	(1)	-0.1%
Product Development and Sales	9,019	8,214	8,586	372	4.5%
Finance and Operations	1,838	1,899	1,500	(399)	-21.0%
Central Administration	58,983	60,983	62,238	1,255	2.1%
Dental Practice	42	331	668	337	101.8%
Dental Benefits	5	77	-	(77)	-100.0%
Health Policy Resource Center	131	60	70	10	16.7%
Science	890	688	910	222	32.3%
Education	19,224	18,625	20,539	1,914	10.3%
ADA Publishing	9,222	10,020	10,034	14	0.1%
Corp. Rel & Strat. Mknng Alliances	208	10	190	180	1800.0%
Total Revenue	119,798	119,664	122,244	2,580	2.2%
Expense					
Contingency General	216	1,000	1,000	-	0.0%
Administrative Services	5,522	5,558	5,721	(163)	-2.8%
Human Resources	1,666	1,996	2,055	(59)	-2.9%
Legal Affairs	4,005	4,149	3,938	211	5.4%
Government & Public Affairs	8,512	9,049	8,894	155	1.7%
Communications	4,197	5,621	5,884	(263)	-4.5%
Membership, Tripartite Relations & Marketing	8,648	8,736	9,145	(409)	-4.5%
Division of Global Affairs	1,332	1,355	1,464	(109)	-7.4%
Conference & Meeting Services	9,617	8,641	9,463	(822)	-8.7%
Headquarters Building	6,026	5,361	5,794	(433)	-7.5%
Washington Building	1,087	1,046	1,069	(23)	-2.2%
Product Development and Sales	4,205	4,042	4,464	(422)	-9.5%
Finance and Operations	4,353	4,070	4,126	(56)	-1.4%
Central Administration	10,396	10,144	9,156	988	10.8%
Information Technology	8,995	10,344	11,249	(905)	-8.0%
Dental Practice	1,266	1,475	2,109	(634)	-30.1%
Dental Benefits	2,140	2,036	1,997	39	2.0%
Health Policy Resource Center	2,507	2,526	2,720	(194)	-7.1%
Science	6,492	6,392	6,886	(494)	-7.2%
Education	14,361	13,833	15,148	(1,315)	-8.7%
ADA Publishing	8,901	9,092	9,199	(107)	-1.2%
Corp. Rel & Strat. Mknng Alliances	1,048	864	906	(42)	-4.6%
Total Expense	115,492	117,330	122,387	(5,057)	-4.3%
Income Before Taxes	4,306	2,334	(143)	(2,477)	-106.1%
Income Taxes	(1,109)	(1,300)	(1,300)	-	0.0%
Net Revenue/(Expense) After Taxes	3,197	1,034	(1,443)	(2,477)	-239.6%

Deficit/Surplus Reflecting Other Cash Items

The table below builds on the two budget summary statements which end in Net Surplus/ (Deficit) after Taxes" and show the impact of adding back depreciation expense, a non-cash item, and adding in both operating capital spending plus the new capital replacement reserve contributions budgeted in 2013 and 2014. This presentation arrives at a bottom line consistent with prior budget reporting.

**ADA Operating
Calculation of Surplus/Deficit**
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	2012 Actual	2013 Budget	2014 Budget
Net Revenue / (Expense) After Taxes	\$ 3,197	\$ 1,034	\$ (1,443)
Add Back Depreciation	6,563	6,358	6,342
Operating Capital Expenditures	(3,440)	(2,856)	(3,329)
Contribution to Capital Replacement Reserve Fund	0	(3,502)	(3,013)
Total: Operating Surplus/(Deficit)	\$ 6,320	\$ 1,034	\$ (1,443)

The House of Delegates created the capital replacement reserve fund beginning with the 2013 budget. For the 2013 and 2014 budgets, the amount of the contributions to the capital replacement reserve fund is determined by the excess of depreciation over the operating capital expenditures. This assumes that over a multi-year period depreciation is a rough indicator of the future capital expenditures that will be required to replace aging assets. This level of contributions should greatly reduce the risk of special membership dues assessments to fund replacements of aging assets.

The surplus/deficit including the contributions to the long term reserve fund (bottom row above) will equal the net revenue / (expense) (top row above) as long as the contributions to the capital replacement reserve fund are based on the excess of operating capital expenditures over depreciation.

Key Assumptions

The 2014 budget is based on the following key assumptions:

1. Membership Dues Revenue reflects no dues increase. However, non-renewals by full dues payers are assumed to fall to 1,500 in 2014 from the consistent trend over the past few years of ~ 4,000 per year. This favorable assumption adds \$ 1.3M to 2014 revenue.

2. Great West Life Insurance: The Council on Member Insurance and Retirement Programs CMIRP has identified and recommended opportunities for additional non-dues revenue from Great West Life Insurance. However, no additional revenue is reflected in this budget as decisions regarding Great West are being considered separate from this budget.

3. Capital Expenditures and Depreciation: Operating deficit is expressed including depreciation under the assumption that the non-cash depreciation charge to the operating surplus will fund both operating capital expenditures plus a contribution to the capital reserve fund. Contributions to capital reserve fund

1 Learning from the councils' experiences with program assessments, the subsequent CBG process
2 reflected three improvements:

- 3 • Each member of the CBG was presented with explanations of the Universal Assessment Criteria
4 and examples of how the criteria is applied to hypothetical programs.
- 5 • CBG was provided with a one page overview of each program developed by program
6 management which included program descriptions and notes on how each program relates to
7 each of the Universal Assessment Criteria. The CBG was instructed to apply their own critical eye
8 to this information, and did so as shown in the scores below.
- 9 • CBG was allowed to enter scores at their own pace (typically taking 3-4 hours) rather than being
10 rushed in a council meeting.

11 While the CBG was scoring programs, the Treasurer, Executive Director, and senior staff reviewed the
12 initial draft financial budgets for errors, opportunities to improve operational efficiency, cross division
13 synergies, or risks to goal achievement.

14 15 **Administrative Review Committee**

16 Before the Administrative Review Committee met for its formal budget review, its chair, the ADA
17 Treasurer, and the Executive Director, along with ADA Financial management reviewed all budget
18 materials in detail. This helped to frame up some of the most substantive issues to be considered at the
19 subsequent Committee meeting.

20 The full Administrative Review Committee was then provided with budgets including the following for
21 every program: program description, notes on the program's alignment with each assessment criteria,
22 CBG's assessment scores, revenue, staff full time equivalent employees (FTE), expense including staff
23 time, as well as consolidated ADA budget financial statements versus prior year actual and budget. The
24 Committee meeting included discussions with each council chair regarding the council's programs. The
25 Committee typically asked the council chair about the expected outcomes of a program, or the strategies
26 that the council is pursuing, or current status against goals mentioned in the program's budget materials.
27 This dialog served as a two-way education—the council shared their knowledge of the programs while the
28 Committee offered the perspectives of their broader view across the ADA.

29 **Board of Trustees**

30 The Administrative Review Committee, led by the Treasurer, then made its final budget recommendation
31 to the full Board of Trustees, first at the June Board session. The Board reviewed the Committee's report
32 recommendations and asked questions and requested additional information as needed. Budget
33 adjustments agreed upon by the Board were then reflected in the subsequent budget draft presented to
34 the Board of Trustees at their second summer session, which this year occurred in early August.

35 **House of Delegates**

36 The final budget will reflect any changes adopted by the House of Delegates, including any financial
37 impact of all House resolutions.

38 **Final Comments on 2014 Budget Targets**

39 For several years, the ADA has been challenged by falling market share and rising costs. In fact, initial
40 budget submissions included lower dues revenue which continued the existing multi-year trend of
41 declining membership market share. As a result, this 2014 budget was updated to include stretch goals
42 for membership to serve as a catalyst for change to turnaround this trend. Alignment of the entire
43 organization to drive value to attract and retain members and improve non-dues revenue is critical to the
44 long term success and financial stability of the ADA.
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American Dental Association Operating Fund1 2014 Budget Summary by Natural Account
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	2,012 Actual	2,013 Budget	2,014 Budget	2014 B v 2013 B	
				Fav / (Unfav)	
				\$	%
Revenues					
Membership Dues	54,552	57,550	58,146	596	1.0%
Advertising	8,156	9,617	9,483	(134)	-1.4%
Rental Income	5,579	5,023	3,855	(1,168)	-23.3%
Publication & Product Sales	7,448	6,740	7,034	294	4.4%
Testing Fees & Accreditation	18,855	18,020	20,130	2,110	11.7%
Meeting & Seminar Income	11,315	10,225	9,429	(796)	-7.8%
Grants & Contributions	1,987	1,907	2,261	354	18.6%
Royalties	6,609	5,293	7,127	1,834	34.6%
Investment Income	2,362	2,085	1,476	(609)	-29.2%
Other Income	2,934	3,205	3,304	99	3.1%
Total Revenues	119,797	119,664	122,244	2,580	2.2%
Expenses					
Salaries and Temporary Help					
Salaries (Base Compensation)	37,522	38,653	40,840	(2,187)	-5.7%
Agency Compensation (Incl Severance)	1,575	1,300	700	600	46.2%
Temporary Help	1,158	258	284	(26)	-10.1%
Total Salaries and Temporary Help	40,255	40,211	41,824	(1,613)	-4.0%
Fringe Benefits					
Pension - Normal Cost	1,496	1,703	2,324	(621)	-36.5%
Pension - Catchup Supplemental Funding	5,065	5,492	5,252	240	4.4%
401k Contribution	1,843	1,718	1,737	(19)	-1.1%
All Other Benefit Costs	4,443	4,809	4,874	(65)	-1.4%
Total Fringe Benefits	12,847	13,722	14,187	(465)	-3.4%
Total Payroll Taxes	2,727	2,734	2,810	(76)	-2.8%
Total Travel Expenses	5,646	5,900	6,299	(399)	-6.8%
Printing, Publication & Marketing	9,668	11,027	11,764	(737)	-6.7%
Meeting Expenses	3,054	2,290	2,388	(98)	-4.3%
Consulting and Outside Services	7,586	5,973	6,981	(1,008)	-16.9%
Professional Services	8,688	9,465	9,654	(189)	-2.0%
Bank & Credit Card Fees	1,136	1,193	1,222	(29)	-2.4%
Office Expenses	4,781	5,151	5,270	(119)	-2.3%
Facility & Utility Costs	6,318	5,818	6,068	(250)	-4.3%
Grants and Awards	2,304	2,313	2,241	72	3.1%
Endorsement Costs	660	695	803	(108)	-15.5%
Depreciation/Amortization	6,563	6,358	6,342	16	0.3%
Other Expenses	1,352	2,577	2,634	(57)	-2.2%
ADA Health Foundation - Grant	1,907	1,900	1,900	0	0.0%
Total Expenses	115,492	117,330	122,387	(5,060)	-4.3%
Net Income (Loss) before Income Tax	4,306	2,334	(143)	(2,477)	-106.1%
Income Taxes	(1,109)	(1,300)	(1,300)	0	0.0%
Net Revenue/(Expense) After Taxes	3,197	1,034	(1,443)	(2,477)	-239.6%