

BEAUFORT MEMORIAL HOSPITAL BOARD OF TRUSTEES

FINANCE COMMITTEE – OPEN SESSION

Minutes – January 24, 2018

PRESENT: Dave House (Chair), Bill Himmelsbach, David Tedder, Terry Murray, Stephen Larson, M.D., Russell Baxley, Kathy Cooper, Andrea Allen, Sarah Dyson, Ken Miller, Karen Carroll, Brian Hoffman, Chris Ketchie, Kurt Gambla, D.O., Allison Coppage, Debbie Schuchmann, Courtney McDermott, Laurie Martin, Daniel Mock and Anna Sobiech

Guests: Mike Kelly, CPA and Kelly Smith, CPA of Dixon Hughes Goodman, LLP; Dave Smith, BMH Controller; Cindy Gibson, Sr. Staff Accountant; Ashley Yoakum, Sr. Staff Accountant.

Absent: Bill Spearman, M.D., Mark Dean, M.D., Susan Roos and Shawna Doran

CALL to ORDER: Mr. House called the meeting to order at 7:30 a.m.

APPROVAL of MINUTES – December 13, 2017: Mr. Himmelsbach made a motion, which was seconded by Mr. Tedder, to approve the minutes of the December 13, 2017 meeting. Unanimous approval.

Tentative Audit for 2017: Mr. Miller introduced Dave Smith, Cindy Gibson and Ashley Yoakum and indicated their presence at the meeting was to hear the results of the audit report since they were an integral part of the compilation of information provided to the auditors. Mr. House then introduced Mike Kelly and Kelly Smith of Dixon Hughes Goodman, LLP who were present to provide the tentative audit for 2017. Mr. Mike Kelly referenced the Combined Financial Statements of Beaufort Memorial Hospital and Beaufort Memorial Hospital Endowment Foundation that were provided as a handout. He explained that the audit was in tentative status awaiting the State's completion of the state's pension plan audit. Both Regions and TD banks are aware of the audit status and BMH is waiting waivers from the banks on debt service coverage and minimum cap. Ms. Kelly Smith explained the auditor's responsibility and management's preparation and responsibility for the combined financial statements. Mr. Miller indicated that the receipt of the pension number and covenant entries will not affect the calculation. Ms. Smith briefly reviewed the main audit: combined statements of net position; BMH and BMH Endowment Foundation balance sheets; combined statement of revenues, expenses and changes in net position for BMH and Broad River; statement of activities and changes in net assets for BMH Endowment Foundation; combined statements of cash flows for BMH and BMH Endowment Foundation. Ms. Smith then briefly reviewed the highlighted notes to the combined financial statements. Mr. Kelly referenced the contact information provided for committee members to use if there are any questions. Mr. Kelly then reviewed the required communications and the qualitative aspects of accounting practices. He also indicated that the audit did not uncover any management bias on estimates and no difficulties were encountered in performing the audit. No material audit adjustments were posted as a result of the audit. Discussion ensued regarding whether the Finance Committee should consider an internal audit function or an external independent organization audit review on internal controls. David Smith, Controller, and Mr. Miller will continue to address the internal review of internal controls and

identify areas for improvement, and will provide a report/plan to the Committee at the next meeting. Based on the results of the report the Finance Committee will then decide next steps.

FINANCIAL STATEMENTS

Mr. Miller indicated that volumes for December were mixed. Inpatient volume experienced a slight increase. Outpatient visits were below budget. Surgical volumes decreased in December. Imaging Services, CT and Women's Center experienced a decrease in volume.

Revenue was at \$67.8M. Total operating revenue was \$18M and YTD [year-to-date] the operating revenue was \$54.8M on a budget of \$53.2M. Net to gross percentage was 26.1% on a budget of 25.8%. YTD for uncompensated care was 7.8% compared to a budget of 7.8% as a percentage of gross.

Expenses for December were higher than expected partly due to accruals not recorded in November for Anesthesia and missed accruals for business office items. Volumes and net expenses per adjusted admissions supported the increase of 31 FTEs (3.89 FTE/AOB). Group health experienced an increase of \$100K.

December experienced an operating loss of (\$1.5M). The first quarter total operating profit was at a loss of (\$300K) against a budgeted loss of (\$2.6M). EBITDA showed a loss of (\$430K). YTD EBITDA was positive at \$3.4M versus a budget of \$1.3M. Mr. Miller summarized the debt covenants. Debt service coverage decreased to 3.47. Days cash on hand decreased to 155 from 164. December experienced three payrolls.

Mr. Miller referred to a letter received from TD Bank dated January 22, 2018 regarding an increase in the interest rate relating to the Bond Purchase and Loan Agreement and changes in the federal corporate tax rate. The TD Bank interest rate will increase from 3.03% to 3.7312% and Regions' interest rate will increase from 2.69% to 3.3125%. Discussions ensued. Mr. House requested that Ms. Kathleen McKinney, Bond Counsel, participate in discussion by phone at the next Finance Committee meeting to provide clarification on this topic.

Observation days at 324 were above budget. Discussion ensued regarding Medicare changes affecting total knee replacements and how it affects patients. Discussion ensued regarding receipt of a letter regarding not meeting the metrics for Meaningful Use in 2016 (yearly attestation of metrics/guidelines regarding electronic medical records) and the denial of BMH's appeal. D&O policies were reviewed (two policies were purchased one policy for the Hospital & Foundation and one for Broad River and south of the Broad). Clarification needed on whether anti-trust coverage increase the premium.

ADJOURN: The meeting adjourned at 9:06 a.m.

Respectfully submitted,

David House, Chair