

BEAUFORT MEMORIAL HOSPITAL BOARD OF TRUSTEES

FINANCE COMMITTEE – OPEN SESSION

Minutes – November 18, 2019

PRESENT: Bill Himmelsbach (Chair); Kathy Cooper; Kathryn McDonagh, Ph.D.; David Tedder; Hampton Long (Foundation); Russell Baxley; Ken Miller; Karen Carroll; Brian Hoffman; Allison Coppage; Debbie Schuchmann; Chris Ketchie; Daniel Mock; Courtney McDermott; Paul Sommerville; Kurt Gambla, D.O.; Cindy Gibson; Courtney Smith; and Anna Sobiech

Absent: Shawna Doran; Dave House; Stephen Larson, M.D.; Bill Spearman, M.D

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

APPROVAL of MINUTES – October 28, 2019: Dr. McDonagh indicated that the minutes of October 28, 2019 did not reflect the discussion the Committee had regarding cost of and profitability of Medicare. Mr. Miller was also asked for a follow up with an analysis of this topic. Mr. Tedder made a motion, which was seconded by Mrs. Cooper, to approve the minutes of the October 28, 2019 meeting with an addendum reflecting the Medicare discussion. Unanimous approval.

Audit Update: Mr. Himmelsbach informed the Committee that Dixon Hughes Goodman, LLP [DHG] was present to provide the pre-audit communications. He introduced Mr. Mike Kelly and Ms. Kelly Smith. Mr. Miller indicated that the audit is now being conducted quarterly. Mr. Kelly explained the purpose of the pre-audit communications and indicated that the focus was on the audit itself. In the hand out that Ms. Smith provided, she made reference to the services currently provided to Beaufort Memorial Hospital, Broad River Healthcare, and Beaufort Memorial Hospital Endowment Foundation. She reviewed the timeline of the audit. Mr. Miller indicated that both TD Bank and Regions have agreed to accept a final draft audit and once the South Carolina's Pension audit is complete and the final pension adjustment calculation is received, the banks will accept the final audit (barring any unusual subsequent events). (Mr. Miller clarified that in order to meet the covenant, the final audit needs to be submitted to the banks.) Ms. Smith then reviewed the allowances for bad debts and contractual adjustments; reserves for third party payor adjustments and self-insured programs; net pension liability and related balances; long-term debt and related covenants; joint venture accounting and internal controls. Ms. Smith reported on two audit and accounting developments effective for fiscal year 2021. GASB Statement No.87 relating to leases. *Mr. Tedder requested a "dry run" to get a result/effect under our current lease structure under the new standard.* Ms. Smith suggested taking a full inventory of BMH's current leases and making sure there is an understanding of the impact on healthcare providers. GASB Statement No. 89 relating to accounting for interest cost incurred before the end of a construction period. Ms. Smith referenced the DHG contact information provided for committee members to use throughout the year should there be any questions. Mr. Himmelsbach raised the Jobs Act of 2017 relating to parking expenses and the mandates. Discussions ensued regarding open parking to the public and the total percentage of usage by employees and physicians. Mr. Kelly suggested seeking legal guidance. Mr. Kelly then reviewed the requirements relating to any fraudulent financial reporting, intentional errors

and misappropriation of funds. Mr. Himmelsbach reiterated contacting DHG if committee members had questions or concerns. After the audit update concluded, Mr. Kelly and Ms. Smith exited the meeting at 8:02 a.m. Discussions ensued regarding quarterly audits.

FINANCIAL STATEMENTS

Mr. Himmelsbach indicated that October was another strong month. Mr. Miller provided highlights of the Financial Statements. Acute discharges increased to 777 (on a budget of 724 and prior year at 738). Adult patient days were also strong at 3,335 (on a budget of 3,258 and prior year at 3,127). The case mix index [CMI] was at 1.63 (partially due to the clinical documentation improvement program that was put in place) and prior year at 1.64. Deliveries were at 95. Emergency room visits decreased to 4,304. Outpatient registrations were strong at 17,897 (above budget and prior year). Surgical volumes at 983 were the highest in twelve months. Beaufort Physician Practices also experienced the highest volume in the past twelve months at 22,784 visits. *Mrs. Cooper asked for a comparison on number of physicians last year to volumes versus current year number of physicians to volumes.* Discussions ensued.

Patient revenue for October was \$79.4M (highest in twelve months). Outpatient factor was 3.72 on a budget of 3.62 and prior year at 3.57. Total outpatient revenue was 73.1% and prior year at 71.9%. Total operating revenue for the month was \$21.6M (above budget and prior year). Net to gross was 27.2%. Uncompensated care was \$4.3M or 5.4% of gross revenue on a budget of \$4.4M or 5.9% of gross revenue. Cash collections for October were strong at 101.8%. A payment is anticipated back from DSH [Medicaid Disproportionate Share Hospital], however, Mr. Miller indicated that the amount would not be booked until the payment is received. AR days increased to 52.5 gross and 36 net partially due to increase in volumes.

Expenses for October were \$20.7M on a budget of \$20.9M and prior year at \$18.7M. Salary expenses were at \$8.6M on a budget of \$8.4 and previous year at \$7.6M (a market adjustment was implemented at the end of Fiscal Year 2019 and seen in Fiscal Year 2020). October contract labor decreased slightly to \$245K. Benefit expenses were \$2.4M. Supplies were \$4M (which was below budget and prior year). Other expenses were \$2.2M (above budget and prior year primarily due to payment to Alliance for the Joint Venture Linear Accelerator).

Net income for October was \$1.6M on a budget of \$81K (prior year was \$2.3M). Total EBITDA for October was \$2.5M on a budget of just under \$1M and prior year at \$3.1M (\$1.6M budget variance).

Covenants were mixed. Days cash on hand dropped 13 days to 170.6 (due to the South Carolina Retirement Fund and three pay periods). The debt service on a rolling 12 month basis (TD Bank) was 6.88 on a target of 1.2. Debt to cap was 21.6% and cash to debt was 2.06.

Discussions ensued regarding increase in surgery volumes and the purchase and receipt of MAKoplasty (robotic assisted procedure for orthopedic patient). Training for the physicians will occur in the next month/month and a half. Mr. Baxley indicated that BMH is seeking advanced joint certification.

ADJOURN: The meeting adjourned at 8:35 a.m.

Respectfully submitted,

Bill Himmelsbach, Chair