

**BOARD OF COMMISSIONERS  
PUBLIC HOSPITAL DISTRICT NO. 1 OF PEND OREILLE COUNTY**

August 22, 2019

In Attendance: Commissioners: Raymond King, Lynnette Elswick, Thomas Garrett, Lois Robertson, Terry Zakar; Tom Wilbur, CEO; Chief of Medical Staff, Jeremy Lewis, DO (via teleconference); Shar Sheaffer, Dingus, Zarecor & Associates, CPA, Weston Fink, Washington State Auditors Office (via teleconference); Directors: Kim Manus, Walter Price; Controller, Casi Densley, John Stuivenga, Diane Anderson, Bob Eugene, Robert Rosencrantz, Rick O'Brien, Leif Furman, Jenny Smith, Trina Gleese, and Nancy Shaw.

Excused: Directors: Lynn "Pete" Peterson, CRNA; Chris Wagar, and Susan Schwartz, RN.

CALL TO ORDER:

Chairperson Raymond King called the meeting to order at 1:30 p.m.

READING OF LEGAL NOTICE:

The regular meeting legal notice was distributed as required.

APPROVAL OF AGENDA / CONSENT AGENDA:

The meeting Agenda, Auditors Report and Uncompensated Report were included.

The following consent agenda items were approved as presented by a motion made, seconded and passed.

Auditors Report: July 2019: Net Vouchers #212674 – #213144 and electronic warrants #2017 - 2040 in the amounts of \$1,301,554.71 and \$1,919,816.48, respectively, plus an automatic loan payment deduction of \$40,000 for a grand total of \$3,261,371.19.

Bad Debt/Charity Care: all-inclusive July District Write-off's for \$146,726.54.

APPROVAL OF PREVIOUS MEETING MINUTES

The regular July 25, 2019 meeting minutes were approved by motion made, seconded and passed.

BUSINESS FROM THE AUDIENCE:

*Annual Financial Statement Audit.* Shar Sheaffer, Partner, DZA (Dingus, Zarecor & Associates, CPA) reviewed the District's Financial Statements and DZA's Independent Auditors' Report for the 2017-18 accounting period. Weston Fink of the State Auditor's Office attended the meeting via teleconference.

Highlights: Shar explained that the financial statements are examined to verify material correctness, which deems a "pass" or "fail" opinion; via DZA's audit, our statements received a "pass" opinion. The audit is conducted under Government auditing standards for internal controls; there were no findings. There were significant changes to the 2018 balance sheet, attributed to building the new assisted living facility and associated debt. There was an increase of \$650K (30%) in cash/cash equivalents and net patient accounts receivables \$750K, (18%). Capital assets will be impacted over the next year due to the bond restriction for capital acquisition for the ALF building.

Liabilities and Net Position were separated by current and long-term and included items that will be due within a year as well as long term debt. Of significance, were the new UTGO bond and post-employment benefits liability – an approximate increase of \$1.5M.

Income Statement – the 2018 Net Operating Income was reportedly positive at \$838K; vs. a \$500K loss in the prior year. This was likely due to the addition of orthopedic surgical services; there was a 10% increase to Net Patient Revenue while expenses only increased 5%.

Overall, the Change in Net Position was +\$1.4M. A detailed review of the financial statements included Capital Assets, most were due to CIP and some fixed and movable equipment depreciation. Shar noted a long-term debt balloon payment will be due in 2021; the note is scheduled to be re-financed in 2020.

Net Patient Revenue – Shar noted that our District has managed 340B program funding very well as compared to our peers. A breakdown of all the major payers – i.e. Medicare, Medicaid programs and third party payers was shared. Next year, Proshare funding will fall away due to the switch to our new ALF model.

The following set of 3-year comparative graphs/charts were reviewed for: Total Margin, Operating Margin (including and excluding 340B revenues and expenses), Days Cash on Hand (all sources), Capital Expenditures Percentage of Annual Depreciation, Long-Term Debt to Net Position, Days in Net Patient AR, Gross Days in AR, Contractual and Bad Debt/Charity Care Percentages, FTE/Salaries and Benefits Trends and Net Patient Service Revenue per FTE.

Days Cash on Hand (all sources) was 63 days at year end; 90 days is ideal; Kim attributed the lower number (compared to internal reporting) was due to there being \$4M considered as collateral in the form of a CD on our clinic note. She noted there is the option to draw from the CD without penalty - up to \$1M at this time.

Shar directed the group to the final pages, referring to a Significant Audit Findings letter, which noted “no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus”. The Governmental Accounting Standards Board (GASB) lease accounting standards will be changing - items recorded as operating leases will now be capitalized. Also, the District is required to recognize interest expense before the end of a construction period as an expense in the period in which the expense was incurred; the interest cost is no longer capitalized as part of the historical cost of a capital asset.

Shar presented internal control structure comments for consideration. The inability to optimally segregate incompatible duties increases the importance of management and the Board’s oversight in the internal control process. Nothing rose to the level that led the Auditors to believe fraud has occurred; however, a procedural recommendation was proposed to minimize the risk of errors and/or fraud in the organization.

Following several comments and questions, the Board thanked Shar for the informative presentation.

An audience member, Rick O’Brien submitted comments to explain that he is a first responder interested in running for the Position #5 Board Commissioner. He thanked Jeff Upton for his interest in running as well. Rick extended his thanks to Jenny Smith and Lori Stratton for a positive article that appeared in the Newport Miner related to first year medical student, Trinell Carpenter, (of note, she is from the U of W College of Medicine – the Newport Miner erroneously reported WSU).

Rick stated that he is assuming that the Newport Miner will be publishing comments from the Navigant report, citing 21% of rural hospitals are at high risk of closure unless their financial outlook improves. He also stated that he assumes that NHHS nurses are not affiliated with Providence Medical or sympathetic to the strike discussions currently occurring. He then posed a question related to whether NHHS will be involved with the 2-year, \$8M Meds First Initiative, referring to a recent Spokesman Review article. Rick also commented that, according to a July 25<sup>th</sup> article that included photos of the Board members, pharmaceutical companies flooded Pend Oreille County with over 6.5M painkillers from 2006-2012, equal to 73 pills per person, per year. Rick stated that he merely wished to share his thoughts; he was thanked by the Board members for sharing his comments.

Tom W. explained that hospitals at high risk for closure are primarily in the Southeast and Midwestern regions and depend on whether or not the State's expanded Medicaid under the ACA. Presently, approx. 1/3 of our District business comes from a non-expansion State (Idaho); essentially, we are a blend of expansion/non-expansion, but are not in the Navigant report on rural hospitals at risk.

Robert Rosencrantz (audience member) commented on a note from last year's audit that related to internal controls. He found the written document and the response to be underwhelming. Kim Manus explained that the auditors recommend someone other than the person responsible for making journal entries place checks in the envelopes due to there being an opportunity to "wash" the checks and forego sending the check to the appropriate party. This would prove burdensome, and there are many stopgaps in place to counteract any fraud. Kim pointed out that we recently enlisted an outside service that verifies all checks.

#### COMMITTEE REPORTS

Joint Conference/Planning – Dr. Jeremy Lewis, Chief of Medical Staff attended the meeting via teleconference. He expressed support on behalf of the medical staff for purchase of a new 3-D, digital mammography unit. The medical staff members discussed this issue last evening and stressed that maintaining this service with little or no interruption is vital to the health of the community; if the hospital lacks the service, patients will go elsewhere and may not return, or possibly postpone a mammogram, which could pose a potential risk to their health.

Commissioner Garrett responded and asked whether additional services could also be impacted from the lapse of mammography services; Dr. Lewis confirmed that follow up to biopsies would be impacted as well as necessary surgical interventions. He added that the service is a basic standard of care practice and the lack thereof wouldn't bode well for our overall care continuum and hospital reputation.

Tom W. explained that Lisa Matelich, FP will likely be recruited to start next year in the clinic; Tom asked whether enlisting an additional provider in the interim would serve to maintain consistency in the clinic and/or provide call support. Dr. Lewis confirmed with the medical staff this would serve both purposes in filling the gap with Dr. Kersting's departure.

Finance: Casi Densley, Controller welcomed and introduced John Stuiwenga as a new member of the Accounting team. John explained that he has worked as a financial analyst at STCU for the past three years; he is a Cusick native and has returned to the area.

Casi will request an additional draw under Action Items from the Board Designated Fund to the General Fund to cover the remaining expenses for the new AL facility. The final Kilgore Construction invoice was paid, though there remains one outstanding change order in process.

Kim added that the new ALF rates are finalized and set at \$163.07 – for both ALF and EARC beds. The enhanced rate is \$145 with an add-on if 50% of our clientele require a specific level of care (or higher). Kim does not anticipate any issues; this is to ensure that residents requiring a lower care level will be admitted to RMV. There are 2 of 40 residents that do not meet the care level requirement; they were transferred from the former LTCU.

The rating system determines placement; an additional capital add-on is factored for at least 60% of residents in the Medicaid payer category; providing us another approx. \$7 per day. The 2 bedroom EARC room rate is set at \$230; if we exceed 80% of Medicaid clients, the add-on of \$7 would be paid on *all* beds, bringing the rate up to \$163.07 for both bed types. Kim anticipates this will have a positive impact and noted the set rates are the highest end of current State AL/EARC rates. They will also increase over time.

On a positive note, we were at a 44 resident occupancy, with four more residents scheduled for move in next week – we had 32 residents move from our LTC when it closed. The entire team has worked very hard and been very busy with the new admissions, setting up care plans, becoming acquainted with the new building/layout, medication contracts, etc.

Dr. Radke has assumed the role of EARC Medical Director and has been making rounds with residents at the facility. Three members from the State visited earlier this week to tour the new facility, along with other regional members – they were very impressed. Tom W. added that other facilities have expressed an interest in our ALF EARC model. He commended members of the State for their collective efforts that contributed to the successful August 1 opening.

Kim explained that the timing has been favorable, as she received a new LTCU rate notice indicating we would have received a \$5 per day *decrease* had we remained in our old building.

Commissioner Garrett inquired of staffing impacts following the transition to the new facility. Kim responded, noting that she anticipates minimal impact; an RN quit to take a home health job, but will continue to see residents as a home health nurse. Two other RN's transferred to the ACU. At present, the staff members are devising methods to navigate the great deal of space in the facility and to gain efficiencies in processes. The residents are extremely happy in their new homes.

Quality Assurance: Jen Allbee was not in attendance; Commissioner Elswick reported that Jen informed the POEMS ambulance service that she is applying for a grant, which will pay for a programmable mannequin to train OB staff in the complications of childbirth. The training would eventually be available to EMS personnel, also.

As mentioned previously, Tom W. pointed out a correction to a recent article published in the Newport Miner that listed the college a medical student is attending as WSU; she attends the University of Washington. Dr. Jones is the Dean of a Rural Medicine rotation for U of W. NHHS is also a training site under the direction of Dr. Lewis for WSU medical students.

In response to the Meds First program question from Rick O'Brien, Tom W. indicated that he is not familiar with the program; however, the District has Medication Assisted Treatment (MAT) opioid treatment programs. He noted that opioid-equivalent dosing should be factored to reflect more accurate statistics. Tom noted that Dr. Kersting recently explained that patients that switch from opioid to methadone medications can see an actual increase in opioid equivalent dosing - even though the risk of harm decreases. We also just received funding for a care coordination nurse to be hired under our programs and have worked closely with Pend Oreille County Counseling for a number of years. Admittedly, the entire medical industry is behind the curve and much work lies ahead to address the opioid crisis.

#### SUPERINTENDENT REPORT

Tom W. took a moment to point out four key financial indicators: cash, capital, age of plant, and debt. Tom presented historical data from 2013-2019, noting cash has increased from \$6.6M to \$11.9M during that period. Capital investments, the acquisition of facilities/equipment, were \$23.6M in 2013. Since then we have invested an additional \$21.4M (net), over a 5-year period, bring total PP&E to \$45M, as of last month. Tom noted that we have *invested/retained \$26.7M* in positive capital/cash additions over the past 5+ years. Over the same period, we have increased our long term borrowing by only \$10.2M (net), which represents a *positive cash flow of \$16.5M* over the period.

Tom then reviewed our operating (income statement) and long term capital investment/debt financial indicators. He noted that due to the make-up of our services (birth to end-of-life) and cost based reimbursement, it is next to impossible to have a gain from operations (only 5x in 25 years for NHHS). This is due to cost-based reimbursed covers only "allowable" costs and CMS takes a 2% sequestration off that for Medicare services. However, once we receive payments from private insurance, M&O tax, special levies, 340B payments, contributions and grants, we generally maintain a positive (+2.0%) net margin (22x in 25 years) and positive cash flows. He reviewed the income statement and net income/EBITDA (total cash generated) showing a positive cash flow of \$16M over the 5+ years. Tom indicated he has no reason to believe that *our \$3.0M in annual net cash flow* will not continue into the immediate future. In fact, with nearly \$1.5M in allocated overhead shifting from LTCU to the hospital/clinic, that should more than offset any lost Proshare reimbursement and should effectively increase cash flow in 2020 and beyond.

Looking forward, the only current expected capital expense is the purchase of new accounting/EMR software. Buzz Price explained the initial investment associated with purchasing a new EMR will be financed over a period of time. Buzz thanked the Commissioners for approving the enlistment of Bluetree Consulting firm; he noted that we have never replaced an entire EMR system, and there are many layers to consider to ensure optimum functionality and a smooth transition to meet our specific needs. Tom W. added that any major financial decisions have always been thoughtfully researched and considered; equipment is typically repaired and maintained until the useful life has expired.

2019-'20 Strategic Planning: A provider overview and highlights of the District core targets, priorities, initiatives and next steps was discussed. Tom W. recently met with Cathy McMorris Rodgers and other hospital leaders from the region. The CEO of SHMC/HFH noted that there are 100 patients in their facilities on any given day with no justified medical need to be there; unfortunately, there is no other placement option available. 20-25 psych patients are also boarded in their emergency rooms on a daily basis. There are no local resources to manage this population.

HCA/1115 Waiver – we will continue to consider proposals and research ACO options. We are on target and do not anticipate any major Legislative changes. We continue to work with our Molina and Amerigroup partners.

Providence Health Systems recently merged with Care Oregon, a 196K lives, \$1B business. The system is diversifying and expanding their service portfolio; which can prove challenging to compete with. Tom is not concerned with Providence being interested in purchasing critical access hospitals and is confident they will continue our affiliation.

Recruitment – one provider visited on Monday and has plans to begin her clinical practice here after completing her fourth year OB Fellowship residency program in Spokane. Tom is working with another provider that completed his OB Fellowship program in Tacoma and is interested in a temporary engagement. Tom continues to work with the doctors to determine our recruiting strategy for an additional family practice provider. The Sandpoint Emergency Medicine physicians have transitioned nicely. An OB/Gyn provider that is retiring has expressed an interest in a limited surgical/Gyn practice in March.

A Board retreat will be scheduled in October. Tom encouraged the Board members to consider their questions and suggestions for any strategic initiatives, capital plans, provider recruitment, service line and sub-specialty augmentation, etc.

### **ACTION ITEM AGENDA**

**Transfer of Funds** – Via motion made, seconded and passed unanimously, the Board authorized the transfer of \$260,000 from the Board Designated Fund to the General Fund to cover residual amounts to complete the RMV Advanced Care facility construction project.

**Capital Purchase – Fujinon Endoscopy System** – upon recommendation of the medical staff and consideration of the Finance Committee, the new endoscopy system was approved unanimously as a Priority One capital purchase via a motion made, seconded and passed in an amount not to exceed \$200,000.

**Capital Purchase – Roofing Repairs** – Following discussion, \$21,000 was approved via motion made and seconded, unanimously authorizing critical repairs to the roof of the '58 circa building and necessary repairs to the roof at the RMV facility.

**Capital Purchase – Cautery Unit** – a motion made, seconded and passed unanimously approved the emergency purchase in the amount of \$6,392 for a Bovie Pro Cautery unit. The unit unexpectedly broke down, making the purchase necessary in order to continue providing same day surgery services.

### **OTHER BUSINESS:**

**3-D Mammography System** – CEO Wilbur thanked everyone for their due diligence over this entire process – from the Finance Committee and our finance department and operating managers. The process worked exactly as intended and was well vetted. The cost for new 3-D digital mammography equipment is \$380K; with other components estimated at \$70K, though Tom estimated construction

costs should be nowhere near the estimates. Walter Price noted that the unit installation detailed quote was submitted to our new partner, M-Data, the in-house Premier capital analytics group – the quote was returned at a lower price (than Premier) for this particular model.

Tom requested approval for the purchase of the mammography unit in the amount of \$380,600; contingent upon obtaining a firm cost estimate for the room remodel and construction. Jenny Smith explained that the Foundation has pledged support towards the purchase of the unit, as the Snack Bag program is fully funded for 3 years of operation. Leif Furman noted that preparing for installation of the unit will take some time.

**Commissioner Elswick moved to approve the purchase of a new mammography machine and associated construction costs and fees in an amount not to exceed \$420,000, and with the stipulation it include a 20% down, 5-year full service maintenance contract. Commissioner Robertson seconded the motion that was passed unanimously.**

Commissioner Elswick cautioned that, with the purchase of the endoscopes, mammography unit (including construction costs), and other capital items, the Board will remain vigilant and selective in consideration of any future capital purchases.

Kim Manus referred to a sample resolution noting a 60-day look back window to finance capital purchases under an LTGO bond at a future date, if necessary. She notified the Commissioners that our LTGO bond financing for River Mountain Village Assisted Living was recently paid off and we continue to receive approximately \$500,000 in annual M&O tax revenues, which allows the District's ability to borrow at very low interest rates. Borrowed funds would be restricted to capital improvements and/or equipment. The resolution would secure the right, but does not commit that the funds would be borrowed. Kim will research the timeline to issue the bonds, which she believes is 12-18 months after purchase. There were no objections and Kim will present the resolution at the next meeting of the Commission.

#### EXECUTIVE SESSION

As permitted by RCW 41.05, the meeting was moved to Executive Session at 3:28 pm. for approximately 20 minutes to discuss credentialing matters.

#### RETURN TO OPEN SESSION

The Commission returned to Open Session at approximately 3:45 pm. Per recommendation of the Medical Staff Executive Committee, the Commissioners approved:

#### Provisional Appointments:

##### Radiology:

Charles Alder, M.D.  
Paige Flett, M.D.  
Oksana Prychyna, M.D. – (Off-site)

##### Emergency Medicine:

Vincent Hunstberger, MD  
Mary Logsdon, M.D.

**Courtesy Reappointments:**

**Off Site Tele-neurology:**

David Bauer, M.D.	Sarsfield Dougherty, M.D
Adam Benson, M.D.	James Eaton, M.D.
Joel Brake, M.D.	Paul Eikens, M.D
Jeffrey Clarke, M.D.	Mark Elliot, M.D.
Richard Dahlen, M.D.	David Keaton, M.D.
Kyle Dale, M.D.	Ngoc Luu, M.D.
Anthony D'Amico, M.D.	Mark McVee, M.D.
Garrett DeJesus, M.D.	Matthew Mesick, M.D.
Jacob Pickering, D.O.	Jason Vergnani, M.D.

**Resignations:**

Christopher Ramage, D.O. – Emergency Medicine – Effective June 1, 2019.

**NEXT MEETING DATE**

The next regular meeting of the Commission will occur on Thursday, September 26, 2019 at 1:30 pm.

**ADJOURNMENT**

There being no further business, the meeting adjourned at approximately 3:45 pm.

Minutes recorded by Nancy J. Shaw, Administrative Assistant and Tom Wilbur, CEO.

  
Raymond King, President  
Board of Commissioners

  
Lynnette Elswick, Secretary  
Board of Commissioners-