

Mayers Memorial Hospital District
Board of Directors – Regular Meeting

APPROVED

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Date: August 26, 2009

Time: 1:00 P.M.

Location: Mayers Memorial Hospital
Burney, California

(These minutes are not intended to be a verbatim transcription of the proceedings and discussions associated with the business of the board's agenda; rather, what follows is a summary of the order of business and general nature of testimony, deliberations and action taken.)

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| <p>1. CALL MEETING TO ORDER: President Kerns called the regular meeting to order at 1:02 p.m. on the above date with the following present:</p> <p style="text-align: center;">Mike Kerns, President Gail McClung, Vice President Jim Hamlin, Treasurer Allen Albaugh, Trustee Ruth Knoch, Secretary</p> <p>Staff Present: Katharine Ann Campbell, CEO Others Present: JP Marion & Justine Gartrell, Cal-Mortgage, OSHPD</p> |
| <p>2. ADDITIONS & CHANGES TO AGENDA, SECTION 54954.2(b)2: Order of agenda changed: The Finance Report will be first topic on agenda to accommodate departure of Jim Hamlin.</p> |
| <p>3. CALL FOR REQUEST FROM AUDIENCE TO SPEAK TO ISSUES OR AGENDA ITEMS: Martha Lucero (Fletcher): Comments to Agenda Items 4, 5, 6. Matt McAlerney: Brown Act issues and Cal-Mortgage Regulatory Agreement.</p> |
| <p>4. APPROVAL OF MINUTES – A motion/second (McClung/Knoch) to accept, as presented, the minutes of the regular meeting of 7/22/09 and special meeting minutes of 8/12/09, 8/14/09, and 8/19/09. M/S/C. Public comment: Lucero commented the previous board meeting minutes have been included on website in past months and questioned change. McArthur, Board Clerk, responded "draft" minutes will no longer be included on website however will be public once board approved.</p> |
| <p>5. BOARD COMMITTEE REPORTS: 5.1 Finance Committee Report: Hamlin reported the Board Finance Committee (BFC) met prior to the board meeting and he provided an overview of discussions during committee:</p> <ul style="list-style-type: none">➤ Interviews of CFO were all favorable: Cal Mortgage, senior management team (C6), board chair, and board finance committee. Public comment: Lucero suggested continuing search through contracted recruitment firm for a thorough "due-diligence" search process.➤ The RFPs for audit firm search dispersed to committee members. BFC to review and make recommendation to full board to take action next month. RFPs were also dispersed to board, CEO and Cal-Mortgage staff.➤ General Surgeon contract reviewed and approved in committee. At this time, credentialing approval for surgeon candidate is pending. Campbell reported he has provided surgical services in the past during Dr. Scharpf's absence. He will not be doing scopes as Dr. Scharpf will be returning to do scope procedures. Concerns discussed in regard to ROI (return on investment) to generate income and hospital revenue. Campbell reported, based on AMA and GMA statistics, the income guarantee should produce a \$2 million return. The contract will provide community, once again, with surgical services and to include emergency surgeries. Discussion. Board directed CEO to move forward securing contract once credentials approved.➤ The BFC reviewed and approved quarterly liabilities (4Q) for the following: Alpha Fund (workers |

comp), CAHHS (unemployment liabilities), EDD (annual premiums), IRS (FICA, Medicare, withholdings), State Board of Equalization (sales tax), CEO expenditures.

- John McCormick in-house providing financial assessment until Friday, 8/27/09. Campbell directed that he also meet with CNO and Director of Surgical Services.

Financials July 2009:

- \$926,039 loss for July. Campbell pointed out increase was partly due to "Other Purchased Services" that included SOSM payment for May, June & July. If billed promptly, some of the expense would have been booked last FY. She also noted the expense category included \$147,000 for McKesson payment that started in July. McClung inquired about McKesson implementation process per contract. Public Comment: Lucero assisted in McKesson contract and suggested pushing back contract payment even further if possible but doubtful since McKesson has already provided Mayers 120 days to get things in order. Board discussion followed and directed Campbell to work with McKesson to delay payments and implementation. Campbell accepted task and will provide board with outcome.
- John McCormick spoke to committee and management during BFC meeting to make them aware of cash crunch situation within next 2-3 months and advised to plan strategy.
- Summary of Services: Days outstanding favorable but concern expressed by McClung for significant increase in write-offs. Campbell was unable to provide specific answer to cause but would research and provide answer.

Building Repair Costs for Admissions Office: Campbell tabled topic—no bid yet for work.

Public Comment: Marty Lucero spoke with concern for the finances of District:

- *Cash poor although reported in the newspaper finances improving however it seems we are not paying bills any better*
- *Why going forward with services and projects the hospital can't afford with examples:*
 - *McKesson*
 - *Master facility plan (MFP) that has been done previously and now repeating process again. Concept understood but seems to be in a hurry to move forward. Hopeful that focus will be on seismic, which is mandatory, and to stick to plan this time that includes a successful funding plan to avoid strapping hospital with more financial burden.*
- *Shasta Orthopaedics re-negotiations discussed past 6 months while digging bigger hole—efforts to resolve should be collaborative and not adversarial.*

She concluded if we care about MMHD, there needs to be something done about some of these issues mentioned. Albaugh appreciated comments as it reminds us (Board) of our duties here.

Public Comment: Matt McAlerney spoke in regard to Brown Act issue with concern that matters are being taken into closed session with possible consensus emerging but not reported in open session. Specifically, the first one that came to his mind was at the last regular meeting (7/22/09) the board took into closed session an added agenda item dealing with a breach of closed session minutes, which is a very serious matter, and would expect an announcement whether or not there was a violation of security of the closed session minutes. If there was a violation, the public has a right to know those findings.

McAlerney also expressed concern that the board, as well as Cal-Mortgage staff, have been in closed session several meetings pertaining to "CEO Performance Evaluation" with no actions taken and objects to the fact that an outside agency is being invited into and participating in closed session items and requests that the board conduct its negotiations with Cal-Mortgage in open session.

Upon his review of the Cal-mortgage regulatory agreement from 2007, he invited the board to go back and look at the form presented to you (the Board) on 1/24/07 to make sure it is the form which was

actually signed a couple months later—are they the same? Or, possibly the resolution was not properly worded because it states it was given to the board the same day. It is his belief that the board does not have the power to delegate Cal-Mortgage its duties and responsibility of governance unless there is an event of default.

Kerns stated the board would look into his concerns along with the CEO and Cal-Mortgage—McAlerney asked to be included. Justine Gartrell, Cal-Mortgage, stated that Cal-Mortgage has the right to basically act with the board to keep the hospital as a viable asset to the community. McAlerney agreed but objected to the prospect that Cal-Mortgage, short of an event of default, has veto power over the board's decision. Gartrell stated basically MMHD has been in default but no notice—and further stated that the board is well aware of the default actions and the regulatory agreement. Albaugh responded, as a new board member and due to concerns as his public duty and personal liability as a board member, he requested the following be entered into public record:

The fact is that we have a contractual relationship with Cal-Mortgage according to the management of this District, my question is, given that: What is that relationship? And what authorities does Cal-Mortgage have at this given moment as to the management of this hospital? Describe to me where the District board authority ends and Cal-Mortgage authority begins?

Gartrell was reluctant to comment as she was not an attorney. Albaugh answered he was not an attorney either but it was merely for his information because it had probably been provided to the rest of the board previously but as a new member asked for clarification. JP Marion answered that it's basically an insurance policy where in the event that the hospital is unable to make the monthly interest and principle payments to the bond holders (when the building was financed bonds were sold to the general public), the Cal-Mortgage Insurance Policy kicks in and they make the payments to the bond holders and then come after Mayers to get reimbursed. Justine added the District entered a regulatory agreement at the time of bond issuance and Mayers agreed to perform certain things and to meet certain covenants—and as long as that is being done—Cal-Mortgage basically comes to visit on an annual basis to make sure that things are moving along. Obviously, Cal-Mortgage has been here for a number of years, so this is not an overnight event. We've been working with them to help them overcome the fact that the population the District needs to serve does not provide a census large enough to allow the hospital to make sufficient dollars to be very profitable. So, to whatever end, we can work with you, hopefully not over you, until we have given you a written notice telling you that we are managing the facility. Until then, the board is still in charge of managing the facility. Albaugh stated, at this point, the Board can basically do whatever it pleases—Justine responded "no" the District is still governed by the regulatory agreement. Otherwise, whatever is within the regulatory agreement that authorizes the Board to do when not in default. Albaugh expressed concern that during the six months he has been on the BOD, he has expressed great concern in the financial condition of the hospital and amiss that Cal-Mortgage has not stepped forward prior to now in assisting the Board with some plans to correct this condition. Discussion followed and Justine responded that Cal-Mortgage works with management and allows the plans to take place. They have been concerned and the reason why Cal-Mortgage just re-financed the bond—to enhance the hospital's financial position—and reassured the board they will spend as much time as necessary to help turn it around. Albaugh asked Justine, given the current Balance Sheet, when would the hospital get the Notice of Default—and Justine responded it actually looks better than it has in a long time and have seen very positive moves, particularly with the last audited financial statement. The hospital has not made money in four years and now it's making money—you don't dig yourself out of a hole with a small amount of money overnight she stated. Both Gartrell and Albaugh agreed to sit down and review financial history and current status at a future meeting.

5.2 Quality Committee Report:

Committee chair Mike Kerns reported the August BQC meeting was cancelled. He dispersed copies of the approved "CEO Evaluation Policy & Procedure" to board members for binders.

Balance Scorecard (BSC): Atkins dispersed copies of July 2009 BSC for discussion and review—and reported current work being done on quality measures for the next fiscal year. Optima will present risk management to board in October. She referenced employee satisfaction survey summary included in chief operations report that CEO will handout during her report.

5.3 Strategic Planning Committee Report:

5.3.1 Kerns reported committee met and reviewed Bylaws with questions and clarification. At this time the committee sees no compelling reason to modify the bylaws. Comment made that District requires CFO. The SPC recommended to board to re-affirm bylaws as written. ***A motion/second (McClung/Albaugh) was made to re-affirm the April 21, 2008, MMHD Bylaws.*** Discussion: Gartrell noted that major changes would require Cal-Mortgage approval. Board Clerk will send copy of Bylaws to JP Marion. Number of board members discussed—Justine noted all district hospitals she works with have five board members—Kerns reported committee discussions for alternatives includes a volunteer infrastructure through committee process to support board. The options are to be discussed and considered at a later time. **M/S/C unanimously.** McArthur will provide new copy of Bylaws with re-affirmed date—and to calendar bylaw review for 2010.

5.3.2 CEO Campbell dispersed MIHF draft capital campaign schedule for Phase I. More detailed plan next month after Mayers IHF approves basic plan at its September meeting. In response to question by Kerns, the seismic costs are separated from Phase I budget.

6. OPERATIONS REPORT by CEO Campbell:

CEO Campbell dispersed copies and provided highlights to items in written operations report for August 2009 as well as reported on specific issues as follows:

- Federal issues
- Clinical laboratory teaching site ACI (lab training school)
- Handout: CDPH August 3, 2009
- Handouts (2): Foundation Activities (12 months). Also, available for board review was Driscoll correspondence

7. ANNOUNCEMENT OF CLOSED SESSION (2:30 pm Recess/2:45 pm Closed Session)

President Kerns announced closed session for the purpose of the following:

1. Pending litigation pursuant to Government Code Section 54956.9.
2. Discuss and review quality assurance issues pursuant to Government Code Section 54962.

8. RECONVENE – REPORT OF CLOSED SESSION ACTION(S): President Kerns reported the following:

Approved M/S/C unanimously: Closed session minutes (07/22/09, 8/12/09, 8/14/09, 8/19/09).

Approved M/S/C unanimously: Medical staff credentials (consulting) for **James Netreba, MD**, pathologist, Northern Diagnostic; temporary privileges extended for **Timothy Wilkins, MD**, family and emergency medicine; medical staff reappointment for **John Lange, MD**.

9. ADJOURNMENT: The Board of Directors adjourned at 3:22 p.m.