SHERIDAN MEMORIAL HOSPITAL
SPECIAL BOARD OF TRUSTEES MEETING
MINUTES
Tuesday, March 15, 2011   3:00 p.m.

MEMBERS PRESENT: Ron Mischke, Dixie See, Gary Miller, Gene Davis,
Bill Huppert and Michael Strahan, M.D.

MEMBERS ABSENT: Harlan Rasmussen and Dr. Hanebrink

Others Present: Mike McCafferty

CALL MEETING TO ORDER

Ron Mischke called the special meeting to order at 3:00 p.m. for the sole purpose of the
Electronic Medical Record (EMR) presentation.

ADMINISTRATION REPORT

Mike McCafferty stated that Nyle Morgan, Chief Information Officer, would provide a
review of the five-year plan for EMR, discuss the vendor process, contract negotiations,
community benefit, and the cost for the system. Ed Johlman, Chief Financial Officer, would
present how the cost of the EMR will impact the SMH strategic financial plan.

Review of 5-year plan for EMR: Mr. Morgan began his presentation by reviewing the
Sheridan Memorial Hospital five-year plan for EMR. The plan was developed in 2008 when
discussions began on the network infrastructure to standardize the hardware and software
for the hospital which was completed in May, 2009. The hospital electronic patient record,
physician office EMR, and Integrated Health Record (IHR) was laid out in the plan to be
completed within 3-5 years. The system is a state-of-the-art windows net based product that
would allow information to be accessible and share data within our medical community and
with other systems and practices. Clinical process documentation will implement
interdisciplinary care plans and electronic nursing documentation. The physician process
documentation will be implemented to include computerized physician order entry. Mr.
Morgan explained that the system implementation will allow data integrity of physician-
identifying-information across applications to reduce physician-patient errors.
Implementation of integration engine technology allows us to control interfaces and identify
appropriate changes for cost savings. To meet meaningful use and Accountable Care
Organization (ACO) requirements, all systems must be operable with software outside our
walls. Disaster recovery is a dual process that will allow the ability for fiber connectivity
throughout the community with ACT. Soon we will have no single points and will be able
to include all physician offices to retrieve and send authorized patient information. The goal
of the plan was to put together an infrastructure to be fast, efficient, and accessible to
support the EMR and to meet the objectives of the hospital's strategic plan.

Vendor Process: After the development of the strategic plan, the vendor search process
began. Mr. Morgan explained that a list was compiled of 6-7 possible software vendors. The
vendors' attributes were compared with the five-year plan and evaluated with the third party

to see how they measured up with each other. The list of vendors was narrowed down to four; Keane, AllScripts, Cerner, and Hospital Management System (HMS). Physicians, administrators, clinicians, and Board members were invited to attend in-house vendor demonstrations. A matrix of questions was built to assist with the grading of the vendor products according to the standards we set. The choices were narrowed down to two vendors; Allscripts and Cerner. Staff then made site visits to Arizona and Alabama for an opportunity to see the use of the systems in a hospital setting and talk to people that have used and installed the product. After looking at the software, the committee formed a good opinion for the direction to take. Mr. Morgan stressed that the core piece of the EMR is physician orders and documentation. The goal is to make sure that we obtain and pay close attention to the feedback from our physicians so that the system meets their needs. We want a high adoption rate by our physicians. For the product to be successful it must meet physician needs or it won't be used. Mr. Morgan announced that the hospital has selected Cerner Corporation of Kansas City, MO, as the vendor for the system. Due to the nature of the Emergency Department documentation, anesthesia and patient billing, we will continue to look for products that will meet their needs. The contract will be built around options so that we have the flexibility to select different providers to meet those specific hospital needs.

Contract Negotiations: After the vendor process was complete, contract negotiations began. Mr. Morgan stated that he selected legal counsel that he had worked with in the past for other software negotiations. Together they negotiated with the senior counsel of Cerner through 12-15 iterations. After two months of review, Mr. Morgan, attorneys and Cerner counsel have completed the contract review. Mr. Morgan presented a summation of all changes and what the system contract includes with associated costs:

- ✓ Software and one-time installation cost is $8,500,864 and under the terms of the contract, the hospital will make a 10% down payment on the system and make payments based on milestones. We will define what we find acceptable and set the standard according to our performance standards. $3-4M will be held back until we go live.
- ✓ Future installment payments will be tied to the hospital's ability to implement the software by specific target dates.
- ✓ Work product performance standards are written in the contract. Cerner must find an acceptable remedy to any problem or specific cures and remedies favorable to SMH are invoked. The "Licensed Software" definition was expanded to include the third party vendors that are involved within the Cerner software.
- ✓ Mr. Morgan explained that the HITECH ACT, the healthcare legislation enacted by the federal government, requires hospitals and physician offices to have electronic medical records and meet meaningful use standards by 2014. Healthcare providers, who don't meet the deadline, will experience reduced reimbursement for Medicare and Medicaid patients. If we don't meet those deadline dates, due to Cerner software not being compliant, Cerner is held accountable.
- ✓ The HITECH ACT has specifications that define what makes an Electronic Medical Record certified for meaningful use and if those specifications are not met, Cerner would be considered in breach. A vendor must be certified by a government approved agency. If the product fails and can't be fixed by Cerner or if they don't

      provide support and we still have an issue, we have significant remedies and cures to be made whole.

✓ Mr. Morgan explained that support fees are substantial and due to two consumer indexes, we should expect minimal increases over the next 10 years.

✓ All source code (written code) will be placed in escrow and would become our property in the event of certain Cerner financial hardships.

✓ Typically, vendors will negotiate an overall "cap", a maximum of liability in the event of a breach. Sheridan has negotiated "no cap on liability" for high risk areas, including confidentiality, indemnity obligations of Cerner, including IP indemnity, and HIPAA and BAA breaches. Note that we continue to negotiate contractual remedies for Data Breaches caused by Cerner. Whatever the outcome, damage remedies will not be capped.

✓ Mr. McCafferty stated that Mr. Morgan worked with Mark Velasco to review the contract. The law firm of Lonabaugh and Riggs also reviewed the Business Agreement.

✓ Gene Davis asked about default coverage and if there is a performance bond. Mr. Morgan explained if Licensed Software fails acceptance, SMH receives a full refund. "Cerner will refund all amounts paid relating to the System under such Cerner System Schedule; including any applicable license fees, support and maintenance fees, professional services fees, remote hosting fees, ASP fees and expenses." This is nonstandard in software agreements. Typically, vendors will only refund "license fees", as opposed to support, maintenance, professional services and expenses, which Sheridan has negotiated.

Discussion was held on the financial viability of Cerner. Mr. Morgan discussed the implementation schedule. August, 2012, is the go-live date for the organization to be fully electronic. Training for physicians will include two pieces; ordering and documentation. Dr. Hunter has agreed to be on the Cerner team of physicians that are rolling out the next release of physician documentation. Physician order design will be done by working with physicians to see how they do their specific ordering at SMH today. Order sets will be tailored to that physician and training will be unique to that individual. From a training standpoint; documentation is different per physician, some may continue to dictate. We will obtain input from physicians as we build the system so that when we go-live they will have a high level of confidence.

<u>Community Benefit – Patient Centered</u>: Mr. Morgan reviewed some of the benefits that will make a difference for a patient:

      MultiMedia Imaging: All documents associated with a patient will be electronically scanned and attached to patient records; (i.e. nursing documentation; Homecare/Hospice, and other physician practices);

      The Emergency Department has software with a counter available for efficient time management and to see any areas of concern. Protocol measurements are also timed with alerts;

      Infusion management product is available for IV's with bar codes, which programs the pump. A centralized screen shows every IV running in the hospital, which eliminates the chance for errors and makes a difference in quality for patient safety;

Device connectivity can hook to beds for automatically downloading of vital information to the patient chart;

Evidence-based content allows review of treatment options at the bedside;

Physicians will be able to place orders electronically;

ePrescribe package allows a provider to run a query of patient medications that have been filled anywhere within the community/nationwide;

Bar code scanners may be used by nurses to scan patient wristband to ensure the right medication is given, at the right time to the right patient, which are automatically charted;

Single sign-on eliminates the need for many passwords;

Enterprise master person index will allow a patient's record to be tracked by a crosswalk number which is the same from location to location and ties all information together with a community record number for all physicians participating;

A Clinical data repository will help with supply costs. Cerner has a composite of all hospitals and can pull supply costs associated with DRG's and can compare our costs to others. The purpose is for the best cost for both the financial and the clinical side for the best of class of drugs and plan of cares.

In the past, a patient medical record contains all data accumulated over a period of time. It is difficult when a physician needs to look through a chart to find pertinent pieces of clinical data. The system will allow a Google search, by diagnosis, of the patient chart with filtering options to search information related to the diagnosis, which makes a difference in the treatment of the patient.

A patient portal is also available and would give the patients capability to view certain parts of their medical record

All functions are centered on the patients in the community and our ability to pull their information together.

Cost of EMR: Mr. Morgan explained the following costs:
Cerner software and installation one-time cost $8.5M
SMH hardware for process change $510,000
Enterprise Hospital Ambulatory (Software/Hardware)-
EMR in as many clinics /physicians we would want $573,864
Picis (Software, Hardware plus annual support (80K) $200,000
The complete EMR package total $9,784,728

How Cost of EMR impacts SMH Strategic Financial Plan: Mr. Johlman, CFO, distributed information on the cost impact on other hospital projects, operating cash and capital reserves. He explained that SMH would start to recognize the expense of the EMR system in 2012 and discussed the expense table distributed over 2012-2017. Cerner's annual support cost is $747,000. It was explained what SMH currently pays an annual maintenance fee of $400,000. The Cerner support cost won't be much more than what SMH is paying for on the current system which was implemented in 1992. Total expense for installing and owning an EMR is $1.3M to $2.4M recognized over seven (7) years. Mr. Johlman stated that we would use cash reserves to fund this project, no financing. We expect federal stimulus reimbursement of $3.1M over the years of 2013-2015. In summary, the total EMR projected

cost is $9.8M less $3.1M federal government stimulus reimbursement for a net EMR project cost of $6.7M. If we do not install an EMR, the Federal Government will reduce our Medicare reimbursement by 2% annually, which will cost us $361K in the first year. In summary, the net increase in on-going annual support costs for 2013-2024 is $4,932,000. The loss of Medicare/Medicaid reimbursement is $4,849,209. The net change in annual support costs is $82,791 or an average annual increase over 12 years of $6,899. With the implementation we avoid Medicare loss and receive more benefits in patient care, efficiencies, error issues physician/customer satisfaction, and safeguards. Peggy Callantine, Chief Nursing Officer, noted that the expectation is that the Medicare reimbursement loss could be higher than estimated, if we are not compliant. This system will also help reduce losses from RAC audits. The electronic record and Hospitalist strategies will decrease physician variations by allowing effective ordering processes (order sets) and an efficient model of care.

Discussion was held on federal stimulus requirements. Mr. Morgan explained that Cerner is a partner with CMS to do electronic transfer of data to meet meaningful use. They guarantee their product meets the standard. If we do what we need to do, and if they breach, then they pay us. A total of $500K will be held out until Cerner has fulfilled all of its deliverables and SMH verifies we are satisfied with the install. Even without the stimulus, this is something that we have to do evidentially and we can't assume that we will get the stimulus revenue.

This is an expensive system and could have an effect to our net income and our Gainsharing program. Mr. Johlman explained software depreciation requirements are for five years and hardware depreciation is three years.

Mr. Johlman discussed the project cash flow spreadsheet which illustrates project priority, timelines, costs and how the project is to be financed.
- ✓ EMR project is to be paid by Wilson trust funds, capital reserves and operations cash in 2011-2013. Operating cash-$2.6M; Wilson Trust- $1.1M; capital reserves- $6.0M.
- ✓ Cash flow impacts all projects and it is important to keep capital reserves strong and debt equity ratio down.
- ✓ We will replenish capital reserves through the stimulus reimbursement, selling of spaces in MAC, charitable gifts, etc., beginning 2012.
- ✓ Debt equity ratio will be 9.9% at the end of 2012 and then will improve over remaining years. Have debt capacity to borrow more if needed. Average for most hospitals is 22-29% and this keeps SMH well below that average.
- ✓ Cheaper to use cash than borrowing.
- ✓ Members were reminded that other than the Cancer Center, projects on this list have not yet been approved.
- ✓ SMH may borrow in advance to fund the Cancer Center project to cover charitable donations from Foundation not yet secured.

This information was shared to help explain how the 5-year strategic plan ties to the 5-year financial plan to help make a decision on EMR recommendation.

Mr. Morgan and Mr. Johlman were thanked for their well thought out presentations. Mr. Mischke gave thanks to all of the physicians and staff for their efforts for the work done

during the last five years on this project. Mr. McCafferty made a recommendation to the Board of Trustees that SMH enter into the negotiated contract with Cerner as the vendor for our Electronic Health Record system. Mr. Miller made a motion to authorize a total of $9,784,728M to pursue the contract. Mr. Huppert seconded the motion. Motion carried.

ADJOURNMENT

There being no further business to come before the Board, the meeting adjourned at 4:30 p.m.

Recorder,
Roxanne Araas

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Michael Strahan, M.D., Secretary