

STATE OF NORTH CAROLINA)
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COUNTY OF STOKES)
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OFFICE OF THE COMMISSIONERS
STOKES COUNTY GOVERNMENT
DANBURY, NORTH CAROLINA
MARCH 8, 2011 – Special Session

The Board of Commissioners of the County of Stokes, State of North Carolina, met for a Goals Planning Session recessed from the March 4th meeting (scheduled at 9:00 am) followed by a Special Called Meeting (scheduled at 11:00 am) in the Conference Room of the Ronald Wilson Reagan Memorial Building (Administration Building) located in Danbury, North Carolina on Tuesday, March 8, 2011 with the following members present:

Chairman Ernest Lankford
Vice Chairman J. Leon Inman
Commissioner Jimmy Walker
Commissioner Ronda Jones
Commissioner James D. Booth

County Personnel in Attendance:
Interim County Manager Richard D. Morris
Clerk to the Board Darlene Bullins
County Attorney Edward Powell

Others in Attendance:
Chief Operating Officer Gordon Docking – HMC/CAH
Chief Legal Officer Dennis Davis – HMC/CAH
COO Pam Tillman, Stokes Reynolds Memorial Hospital, Inc.

Chairman Ernest Lankford called the Special Called Meeting to order.

Special Session

Chairman Lankford welcomed Chief Operating Officer Gordon Docking – HMC/CAH and Chief Legal Officer Dennis Davis – HMC/CAH and expressed the Board’s appreciation for their attendance at today’s meeting.

COO Gordon Docking noted the following:

- HMC realizes that the County is proceeding with the RFP process
- HMC was very disappointed that they could not ethically respond to the RFP

- Reiterated to the Board that HMC's desire to own Stokes Reynolds Memorial Hospital has not changed
- HMC feels very strongly that their company has made some strong operational changes that is allowing Stokes Reynolds to operate at a higher and more efficient level than it has historically
- Very pleased the County has not had to supplement Stokes Reynolds for several months
- HMC is very committed Stokes Reynolds Memorial Hospital and to Stokes County
- HMC still has land tied up in Meadows area
- HMC is currently working with a real estate agent in North Carolina regarding the land in the Meadows area

Chief Legal Officer Dennis Davis discussed the following with the Board:

- Been involved with HMC/CAH since June 2007 when the company was formed
- HMC/CAH owns and operates 12 critical access hospitals
- HMC/CAH Consolidated, Inc. was founded as a private equity and financing operating company for the purpose of acquiring public/private CAHs and replacing those older hospitals with new, state-of-the art facilities
- HMC/CAH owned hospitals:
 - Drumright Regional Hospital
Drumright, OK
 - Hillsboro Community Hospital
Hillsboro, KS
 - Horton Community Hospital
Horton, KS
 - Oswego Community Hospital
Oswego, KS
 - Prague Community Hospital
Prague, OK
 - Washington County Hospital
Plymouth, NC
 - Seiling Hospital
Seiling, OK
 - Lauderdale Community Hospital
Ripley, Tennessee
 - I-70 Community Hospital
Sweet Springs, MO
 - Hoots Memorial Hospital
Yadkinville, NC
 - Fairfax Community Hospital
Fairfax, OK
 - Haskell County Community Hospital
Stigler, OK
- First hospital – Washington County, Plymouth, NC
- Stokes Reynolds Memorial Hospital would have been number thirteen

- Larry Arthur is the CEO of HMC/CAH
- HMC's mission is dedicated to developing the premier Critical Access Hospital (CAH) network in the Country by serving our patients, employees, rural communities and shareholders
- Ultimate goal to replace hospitals with new facilities
- Two hospitals owned by HMC are brand new facilities (I-70 Community Hospital and Drumright Regional Hospital) which were purchased from the local community after they were rebuilt
- Four of the ten remaining hospitals have USDA guaranteed loans in place, but are on hold due to the loss of HMC's capital partner (Washington County, Hillsboro, Prague, and Horton)
- All four hospitals which are on hold were to be under construction in 2011
- Economy has caused major issues with borrowing funding
- In 2008, High Point Capital in Phoenix, AR became HMC's Financial Capital Partner
- High Point Capital committed to \$31 million to HMC/CAH, actually has funded \$14 million for operating capital and purchasing hospitals, land, etc.
- The \$31 million would have allowed HMC/CAH to acquire land and build approximately 10 hospitals
- HMC's Business Plan calls for 40 hospitals
- Remaining equity funding expected from High Point Capital at the end of December 2010 would have been used for replacement hospitals in Washington County (approximately \$18 million), Hillsboro (approximately \$10 million), Prague (approximately \$10 million), and Horton (approximately \$10 million)
- HMC received notification on December 29, 2010 from High Point Capital Financial stating that they were no longer able to provide any financial funds
- HMC notified Vice Chairman Inman as soon as they knew this information from High Point Capital indicating that HMC would not be able to respond to the RFP, but remained interested in staying in Stokes County
- HMC has been very busy trying to find a financial partner, but have not yet been able to do so
- HMC has talked to the banks and USDA involved with the four hospitals that were to be under construction in 2011
- All the banks along with USDA have committed to hold the loans for six months
- HMC stands ready, willing and able to continue the management role with Stokes County for Stokes Reynolds Memorial Hospital
- HMC wants to be able to acquire Stokes Reynolds Hospital from Stokes County
- HMC is convinced that they will find another capital partner

COO Docking noted that HMC Senior Vice President of Strategic Planning Trent Skaggs made a comment at a meeting last week that may have created perception that HMC wanted Stokes County to move on from HMC. COO Docking stated that Vice President Skaggs' intention was that it is Stokes County's decision whether to move on, but it is HMC's strong desire for Stokes

County to work with HMC if that is the County's desire.

Chairman Lankford opened the floor for comments from the Board of Commissioners.

Vice Chairman Inman noted the following:

- Appreciated HMC for being here to discuss Stokes Reynolds Memorial Hospital
- Stokes County has a unique commodity
- Feels the hospital has made tremendous strides
- Very pleased with the management provided by HMC
- Appreciates HMC's candidness very much which is not always easy

Commissioner Jones noted the following:

- Echoed Vice Chairman Inman's comments
- Appreciate the honesty
- Questioned the amount of time HMC needs to possibly find another capital partner
- Questioned the stability of HMC

Chief Legal Officer Dennis Davis stated that the county can't hold him to his prediction, but feels HMC will know if there is a new capital partner, their commitment, and availability of funding by the end of 2011. Officer Davis stated that HMC is talking with several companies at the present time who have funding or specialize in raising capital on a project by project basis. Officer Davis also stated that he felt that High Point Capital tried to raise the capital, but just couldn't raise the needed capital.

COO Gordon Docking wanted the Board to know the following:

- HMC is having the best operational year ever, but currently unable to do additional acquisitions and replace hospitals
- From a stability of the company's standpoint, HMC is seeing dramatic improvement from the operations of the hospitals, seeing growth in revenues, seeing good management of expenses
- Ten of the twelve owned hospitals are operating profitably
- The two hospitals that are not operating profitably are showing strong turnaround trends
- Overall as a company, hospitals are operating with a positive bottom line
- HMC is very pleased with the performance of the hospitals
- HMC is on their feet, but not able to execute the company's business plan until a new capital partner is found

Commissioner Booth noted the following:

- Appreciates the comments presented by HMC

- Echoed the comments made by Vice Chairman Inman and Commissioner Jones

Commissioner Walker noted the following:

- Questioned what encourages HMC to feel that they will find a capital partner by the end of 2011

Chief Legal Officer Dennis Davis responded as follows:

- Explained the difficult economy in 2009 with banks basically not having the funding to offer
- High Point Capital continued to fund HMC during the difficult economical times in 2009
- In 2010, banks were much more willing to look at HMC projects
- Worked to acquire stimulus funding, by August 2010 had four 90% USDA guaranteed loans committed and ready to go to funding as soon as all the other development work was done
- Saw great improvement in the banking market in 2010
- Unsure of what actually happened to High Point Capital regarding the \$10 million funding
- Since being turned down by High Point Capital in December 2010, have been able to generate a lot of interest on the equity side
- Looking for replacement investors is much easier
- High hopes in the six months that the banks and USDA have agreed to hold funding, the projects will be back on track, eight investors are currently doing due diligence on the four projects
- Finding a capital partner is more difficult, but currently are in discussion with investors
- Feels we have a good business plan
- Feels we will find a capital partner
- HMC is making progress with producing good operational numbers
- Reiterated that as soon as the information was received from High Point Capital regarding the capital partner, HMC was on the phone to Vice Chairman Inman
- Wanted to make sure that Stokes County knew the situation
- HMC is here in good faith and wants to own Stokes Reynolds Hospital very much
- Will be back, if the hospital is still available, when a new capital partner is found

COO Gordon Docking responded the following:

- Will continue to manage Stokes Reynolds as long as requested by the County with the intent that Stokes County does not have to provide funding for the hospital

Commissioner Walker continued with the following:

- What is the probability that HMC will have a new capital partner by the end of 2011?
- Do you have a Plan "B" if there is no new capital partner?
- What would the planned \$2 -\$3 million funding do for Stokes Reynolds Memorial Hospital?

- For clarification, is your interest still extremely high, if feasible, to purchase Stokes Reynolds Memorial Hospital?

Chief Legal Officer Dennis Davis responded as follows:

- Better than 50/50 and will say 60/40 for acquiring a capital partner by the end of 2011
- Feels currently there is a tremendous amount of funding for capital available
- Do have some other options that would need to be discussed in closed session due to proprietor issues
- The \$2-\$3 million would be used for the following:
 - Clear the working capital obligation of \$1.4 million to Baptist Hospital
 - Upgrade equipment – (CT Scanner)
 - New IT system
 - Pay down accounts payables to a level that they would not be a drag on hospital operations (30 to 45 days acceptable level – estimate \$500,000 - \$800,000)
- If HMC had been in a financial position to respond to the RFP, as we had hoped, believed HMC would have been the successful bidder
- HMC wants to own Stokes Reynolds Memorial Hospital if financially able to put the funding together

COO Gordon Docking responded the following:

- Desire for purchasing Stokes Reynolds Memorial Hospital is still the same even though financials were worse than the books revealed due to things done by Baptist to underwrite expenses
- HMC feels that Stokes Reynolds Memorial Hospital can be a strong performer and with a new hospital, it can even be a stronger performer
- Studies show that when a new hospital opens in a rural community, volume grows by 20% across the board
- Operational changes have been done and continue to be investigated
- COO Pam Tillman is doing an awesome job
- HMC is providing guidance and support to management staff
- Still have significant operational changes that can happen and need to happen to make the hospital operate more efficiently
- There are changes that need to be made that involve contracts and leases, not personnel

Commissioner Walker continued with the following

- Historically understand that HMC is not interested in the long term care, but would want to see the long term care unit of the hospital remain open and viable in this part of the county
- JRJones is the heaviest revenue component with potential growth

COO Gordon Docking responded the following:

- Confirmed that JRJones is critical to the overall success of Stokes Reynolds Memorial Hospital

- Four components (Stokes Reynolds Memorial Hospital, JRJones, Stokes Medical Park and Skilled Nursing Unit) which are a very unique situation and maybe one of a kind for rural hospital licensures across the United States
- In my personal opinion, there are over 1,200 critical access hospitals in the US, (nearly 25% of the hospitals in the US have a critical license) of the 1200 hospitals, Stokes Reynolds is probably the most unique one
- Not aware of another critical access hospital in US that has a situation in King where a significant part of the revenue is generated from an area that would not qualify to be a critical access hospital – that would require careful consideration

Interim County Manager Rick Morris requested clarification:

- When seeking a capital partner, are you considering an all or nothing package for the four projects and Stokes Reynolds Memorial Hospital?

Chief Legal Officer Dennis Davis responded as follows:

- Feels the four hospital replacement projects will be done by individual capital partners on a project basis
- Capital partner who takes the business plan will be the source for Stokes Reynolds Memorial Hospital and any additional acquisitions

COO Gordon Docking responded the following

- Business plan has not changed – twelve owned hospitals with hopes that Stokes Reynolds Memorial will be number 13
- HMC's goal is unchanged which is 40 hospitals
- Stokes Reynolds Memorial Hospital is currently the only acquisition that has been approved by the HMC's Board

Before going into Closed Session, Chief Legal Officer Dennis Davis and COO Gordon

Docking expressed their appreciation to the Board of Commissioners for participating in today's meeting.

Closed Session

Chairman Lankford entertained a motion (read by Vice Chairman Inman) to enter Closed

Session for the following:

- To prevent the disclosure of information that is privileged or confidential pursuant to the law of this State or of the United States, or not considered a public record within the meaning of Chapter 132 of the General Statutes pursuant to G.S. 143-318.11(a)(1)
- To discuss matters related to the location or expansion of industries or other businesses in the County pursuant to G.S. 143-318.11(a)(4)

- To consult with an attorney employed or retained by the public body in order to preserve the attorney client privilege between the attorney and the public body, which privilege is hereby acknowledged pursuant to G.S. 143-311.11(a)(3)

Commissioner Booth moved to enter Closed Session for the following:

- To prevent the disclosure of information that is privileged or confidential pursuant to the law of this State or of the United States, or not considered a public record within the meaning of Chapter 132 of the General Statutes pursuant to G.S. 143-318.11(a)(1)
- To discuss matters related to the location or expansion of industries or other businesses in the County pursuant to G.S. 143-318.11(a)(4)
- To consult with an attorney employed or retained by the public body in order to preserve the attorney client privilege between the attorney and the public body, which privilege is hereby acknowledged pursuant to G.S. 143-311.11(a)(3)

Commissioner Jones seconded and the motion carried unanimously.

The Board re-entered the regular session of the March 8th Special Called Meeting.

Adjournment

There being no further business to come before the Board, Chairman Lankford entertained a motion to adjourn the meeting.

Commissioner Booth moved to adjourn the meeting. Vice Chairman Inman seconded and the motion carried unanimously.

Darlene M. Bullins
Clerk to the Board

Ernest Lankford
Chairman