



Consolidated Interim Financial Statements

June 30, 2020

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Erlanger Health System

Executive Summary for the Year Ended

June 30, 2020

The following financial information represents consolidated information for the Erlanger Health System, which includes:

Erlanger Medical Center(EMC) ContinuCare(CUC) Bledsoe (BLEDSOE) Health Centers(SSDA) HMO Trust (HMO) Erlanger Western Carolina(EWCH)

EMC Key Financial Indicators

- Net income from operations for Erlanger Health System for the year was \$35,270,824 compared to budgeted income of \$13,186,068 and prior year loss of \$3,995,307. For discussion purposes, the HHS stimulus funds are presented as operating income in accordance with FASB guidelines, as well as how most non-governmental hospitals in the industry are reporting. The discussion is for industry comparative purposes, accurate benchmarking and investor clarification. GASB requires HHS stimulus funds to be reported as non-operating revenue for audit purposes due to governmental status.
- Total net income for Erlanger Health System for the year was \$30,194,077 compared to budgeted income of \$5,000,000 and prior year loss of \$4,422,878.
- Admissions were 7.9% less than prior year and 13.0% under budget.
- Total cash reserves are \$305,902,397 (excluding \$111 million for Investment). Current accounts payable is \$101,429,945 for Erlanger Health System. Days cash on hand calculation is 146 days.
- Net income before interest, taxes, depreciation and amortization (EBITDA) for the year was \$75,267,323 compared to budget of \$53,053,702 and prior year EBITDA of \$38,189,769.
- Net days in accounts receivable is 55 days.

Volumes

The COVID-19 pandemic was the major influencer on volumes for fiscal 2020. On March 23, elective procedures were halted due to a Tennessee state moratorium associated with the pandemic. This moratorium was lifted May 1. The reopening plan was executed on May 1 in a systematic approach to ensure patient safety and successful results. Overall results after the moratorium was lifted trended extremely positively, with admissions rebounding 33% at yearend compared to April. Inpatient surgeries rallied back strong at a 62% increase from April. For the month of June, Erlanger was at prior year levels. Finally, outpatient elective surgeries were impacted the most from the state moratorium. Erlanger was one of the first providers to re-open elective surgeries once the moratorium was lifted. The result was a resounding success with a 231% increase in outpatient surgeries over April. Outpatient surgeries in June not only exceeded prior year by 11.2%, but exceeded budget by 1.2%. For the fiscal year, surgical inpatient volume was 8.2% under prior year and 12.4% less than budget. Births were 2.1% more than prior year and 1.7% over budget. Consistent with national trends during the pandemic, emergency room visits were 8.5% less than prior year and 9.6% under budget.

Even through the pandemic, observation days remained 9.3% over budget and 13.9% over prior year. Cardiac cath lab patients were 17.6% less than prior year and 10.4% under budget. Physician visits were 4.3% more than prior year and 7.6% under budget. Erlanger quickly adopted the telehealth model to help offset expected declines in office visits due to COVID-19. For the month of June, physician office visits were 13.4% over budget and 14.9% over prior year.

Income Statement Comments

The pandemic had a significant impact on lost revenues for the period of March through June 2020. The lost net patient revenue is estimated to be in excess of \$93 million for the System. Net patient revenue was \$55.8 million less than prior year and \$107.7 million less than budget. Net patient revenue per adjusted admission was \$8,344 compared to budget of \$8,580. The decrease was due to the inpatient/outpatient mix of the patient population. This rate is expected to increase as the surgical admissions return to normalcy. The Medicare case mix index was 1.92 compared to budget of 1.90. Bad debt & charity care as a % of gross patient revenue was 9.32% compared to budget of 8.08%. Total Medicare utilization was 2.9% less than budget and 3.2% under prior year. Medicaid utilization was 3.8% under budget and 1.9% less than prior year. Even through the pandemic, Erlanger maintained strong commercial utilization with a 2.8% increase over budget and prior year payer mix. Indigent/self-pay utilization was at 7.7% compared to a budget of 6.8% and prior year of 7.1%.

The System recognized \$55.9 million of stimulus funds as non-patient revenue in the current year to partially offset lost revenues and increased expenses during the pandemic. Note that the stimulus funds are shown as operating revenue in accordance with FASB and the hospital industry as a whole. GASB requires the stimulus funds to be reported as non-operating revenue for audit purposes due to Erlanger's governmental status.

Erlanger took immediate action in March regarding cost containment as the pandemic started impacting the region. Erlanger was one of the first providers in the nation to implement decisive operational tactics to offset the projected loss revenue impact. In addition to the management action plan that was implemented in November 2019, prior to the pandemic, these additional measures saved the organization an estimated \$47 million year over year for April – June. Even though the admissions dropped drastically, the cost per adjusted admission was only over budget by \$277 per adjusted admission as fixed costs were spread over fewer admissions. Erlanger was able to manage the productivity per adjusted occupied bed to be under budget. Paid FTEs per adjusted occupied bed were 4.72 compared to budget of 4.80. Case mix adjusted length of stay was 3.00 compared to budget of 2.87 (4.8% over budget) and prior year of 2.97. COVID-19 patients long lengths of stay negatively impacted the length of stay metric. Salary cost per hour was \$36.61 compared to a budget of \$35.52. Supplies and drugs per adjusted admission (adjusted for wage index & case mix) were \$1,815 compared to budget of \$1,790.

Balance Sheet Comments

The balance sheet continued to strengthen as liquidity tactics were put in place in an effort to preserve cash during the pandemic. Days in cash increased from 74 days in fiscal 2019 to 146 days by the end of fiscal 2020. The Medicare advance payments that are due back to CMS within one year were not recognized as revenue in fiscal 2020, and they equate to 35 days of cash. Erlanger has not made any draws on the \$64 million lines of credit. During the fiscal year, Erlanger funded \$25 million in capital improvements compared to \$59.1 million in the prior year. Capital expenditures were temporarily put on hold in March due to the pandemic uncertainty and will resume in the upcoming fiscal year at the appropriate time when volumes are normalized. Pension contributions totaled \$9.8 million based on the actuarial funding schedule. Erlanger retired \$8.5 million of long-term debt during the fiscal year and generated a debt service coverage ratio of 3.62 compared to the 1.10 bond covenant minimum requirement. Decrease in other receivables is primarily due to receipt of prior year outstanding TennCare GME payments. Decrease in other assets is due to loan payments received of \$2.6 million related to Hutcheson Medical Center. The due to third party payers line represents any governmental settlements that are outstanding for fiscal years 2012-2020 and the Medicare advance payments. Accounts payable and accrued expenses decreased by \$16.8 million compared to June 30, 2019 balances. The post-retirement benefits line item reflects the new GASB pension changes. The reserve for other liabilities includes long term PTO and self-insured malpractice liability.

ERLANGER HEALTH SYSTEM
Unaudited Consolidated Balance Sheets as of: June 30, 2020

ASSETS	2020	2019
<u>UNRESTRICTED FUND</u>		
CURRENT		
Cash and temporary investments	\$ 305,902,397	\$ 113,584,247
Patient accounts receivable	480,742,524	564,072,693
Less allowances for patient A/R	(359,573,245)	(404,858,451)
Net patient accounts receivable	121,169,279	159,214,242
Other receivables	33,700,650	35,134,533
Due from third party payors	3,335,546	8,363,831
Inventories	23,379,356	22,336,279
Prepaid expenses	7,579,812	7,295,214
Total current assets	495,067,040	345,928,346
 NET PROPERTY, PLANT, AND EQUIPMENT	 299,530,224	 314,049,964
OTHER ASSETS		
Assets whose use is limited	120,116,838	111,932,991
Other assets	2,061,933	9,114,057
Total other assets	122,178,771	121,047,048
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension adjustments	12,621,229	12,780,999
Deferred amounts from debt refunding	1,525,356	2,115,816
Total deferred outflows of resources	14,146,585	14,896,815
 TOTAL	 \$ 930,922,620	 \$ 795,922,173
<u>LIABILITIES</u>		
<u>UNRESTRICTED FUND</u>		
CURRENT		
Current maturities of long term debt	\$ 13,043,446	\$ 5,644,324
Accounts payable	112,675,336	129,504,980
Accrued salaries & related liabilities	46,084,485	41,815,568
Deferred revenue	18,466,088	2,284,840
Due to third party payors	113,475,563	-
Other current liabilities	4,755,905	1,888,118
Total current liabilities	308,500,823	181,137,830
 POST RETIREMENT BENEFITS (GASB 67/68)	 83,496,325	 79,787,400
 RESERVE FOR OTHER LIABILITIES	 33,518,041	 44,129,431
 DEFERRED GAIN FROM SALE-LEASEBACK	 1,485,052	 1,881,397
 LONG - TERM DEBT	 187,839,024	 203,037,271
FUND BALANCE		
Unrestricted	213,862,035	175,057,639
Invested in capital assets, net of related debt	98,649,976	105,372,484
Restricted	3,571,344	5,518,721
Total fund balance	316,083,355	285,948,844
 TOTAL	 \$ 930,922,620	 \$ 795,922,173

Erlanger Health System

Unaudited Consolidated Statement of Operations
For the periods ended June 30, 2020 and 2019

	Year to Date		
	Actual	Budget	Prior Year
OPERATING REVENUE			
Net patient service revenue	\$ 993,621,422	\$ 1,101,320,601	\$ 1,049,466,244
Other revenue	82,268,225	27,581,940	24,470,400
Total operating revenue	<u>1,075,889,647</u>	<u>1,128,902,541</u>	<u>1,073,936,644</u>
OPERATING EXPENSES			
Salaries and employee benefits	576,535,515	621,660,885	594,160,446
Supplies	146,368,400	157,118,895	156,527,193
Purchased services	208,540,778	219,728,393	211,463,572
Utilities	10,900,379	9,915,235	11,776,906
Drugs	53,666,100	61,804,324	61,225,761
Depreciation	39,234,455	39,485,261	38,512,823
Insurance & taxes	5,373,196	6,003,480	4,265,250
Total operating expenses	<u>1,040,618,823</u>	<u>1,115,716,473</u>	<u>1,077,931,950</u>
Operating income (loss)	35,270,824	13,186,068	(3,995,307)
NONOPERATING REVENUE (EXPENSES)			
Gain (loss) on disposal of assets	470,640	(200,000)	3,625,258
Investment income (loss), net of fees	3,550,831	1,661,276	4,665,618
Interest expense	(9,094,998)	(9,647,344)	(8,722,585)
Provisions for income tax	(3,220)	-	4,138
Net income (loss)	<u>\$ 30,194,077</u>	<u>\$ 5,000,000</u>	<u>\$ (4,422,878)</u>
EBITDA	75,267,323	53,053,702	38,189,769
Operating Margin	3.28%	1.17%	-0.37%
Total Margin	2.81%	0.44%	-0.41%
Salaries/benefits as % of total operating revenue	53.59%	55.07%	55.33%

Erlanger Health System
 Unaudited Consolidated Statement of Operations
 For the period ended June 30, 2020

YTD ACTUAL

	Primary Health System							CUC	EHS Total
	EMC	BLEDSOE	HMO TRUST	SSDA	EWCH	Total	Total		
PATIENT SERVICE REVENUE									
Inpatient services	1,888,315,685	7,833,296	-	898,510	29,295,477	1,926,342,968	-	1,926,342,968	
Outpatient services	1,662,904,290	63,902,384	-	8,969,024	139,257,446	1,875,033,144	6,223	1,875,039,367	
Total patient service revenue	3,551,219,975	71,735,680	-	9,867,534	168,552,923	3,801,376,112	6,223	3,801,382,335	
LESS: REVENUE DEDUCTIONS									
Certified free care	6,191,997	3,296	-	-	-	6,195,293	-	6,195,293	
Charity care	250,025,311	6,400,843	-	-	6,900,529	263,326,683	-	263,326,683	
Bad debt expense	74,595,126	1,882,642	-	-	9,551,085	86,028,853	-	86,028,853	
Medicare and Medicaid rate adjustments	992,682,380	25,586,392	-	(2,188,296)	81,117,138	1,097,197,614	-	1,097,197,614	
Contractual adjustments and policy discounts	1,305,886,487	24,445,374	-	6,396,321	18,284,288	1,355,012,470	-	1,355,012,470	
Total revenue deductions	2,629,381,301	58,318,547	-	4,208,025	115,853,040	2,807,760,913	-	2,807,760,913	
Net patient service revenue	921,838,674	13,417,133	-	5,659,509	52,699,883	993,615,199	6,223	993,621,422	
Nonpatient service revenue	65,520,660	4,658,920	-	3,404,681	9,061,128	82,645,389	3,480	82,648,869	
Investment in joint ventures	(419,827)	-	-	-	-	(419,827)	39,183	(380,644)	
Total operating revenue	986,939,507	18,076,053	-	9,064,190	61,761,011	1,075,840,761	48,886	1,075,889,647	
OPERATING EXPENSES									
Salaries and employee benefits	531,818,115	8,046,427	-	5,575,900	31,093,429	576,533,871	1,644	576,535,515	
Supplies	140,551,326	712,809	-	192,951	4,910,977	146,368,063	337	146,368,400	
Purchased services	193,440,905	2,504,201	-	1,195,165	11,032,145	208,172,416	368,362	208,540,778	
Utilities	9,476,715	258,527	-	116,642	1,046,936	10,898,820	1,559	10,900,379	
Drugs	49,125,941	340,061	-	(298,177)	4,498,275	53,666,100	-	53,666,100	
Depreciation	38,396,303	143,646	-	170,442	524,064	39,234,455	-	39,234,455	
Insurance & taxes	4,920,733	11,294	-	25,643	415,526	5,373,196	-	5,373,196	
Corporate overhead allocation	(11,566,272)	2,727,384	-	800,004	8,038,884	-	-	-	
Total operating expenses	956,163,766	14,744,349	-	7,778,570	61,560,236	1,040,246,921	371,902	1,040,618,823	
Operating income (loss)	30,775,741	3,331,704	-	1,285,620	200,775	35,593,840	(323,016)	35,270,824	
NONOPERATING REVENUE (EXPENSES)									
Gain (loss) on disposal of assets	342,574	-	-	(9,372)	137,438	470,640	-	470,640	
Investment income (loss), net of fees	3,700,178	(124)	45,317	(1,235)	153,518	3,897,654	(346,823)	3,550,831	
Interest expense	(9,092,869)	-	-	-	(2,129)	(9,094,998)	-	(9,094,998)	
Provisions for income tax	-	-	-	-	-	-	(3,220)	(3,220)	
Net income (loss)	25,725,624	3,331,580	45,317	1,275,013	489,602	30,867,136	(673,059)	30,194,077	

Erlanger Health System
 Unaudited Consolidated Statement of Operations
 For the period ended June 30, 2020

YTD BUDGET

	Primary Health System						CUC	EHS Total
	EMC	BLEDSOE	HMO TRUST	SSDA	EWCH	Total		
PATIENT SERVICE REVENUE								
Inpatient services	2,077,325,122	9,567,786	-	360,824	36,135,088	2,123,388,820	-	2,123,388,820
Outpatient services	1,777,924,449	65,984,858	-	10,553,433	151,832,401	2,006,295,141	10,584	2,006,305,725
Total patient service revenue	3,855,249,571	75,552,644	-	10,914,257	187,967,489	4,129,683,961	10,584	4,129,694,545
LESS: REVENUE DEDUCTIONS								
Certified free care	9,244,810	-	-	-	-	9,244,810	-	9,244,810
Charity care	177,153,923	5,219,046	-	-	8,074,558	190,447,527	-	190,447,527
Bad debt expense	125,082,704	3,244,499	-	-	10,747,358	139,074,561	-	139,074,561
Medicare and medicaid rate adjustments	1,120,652,700	28,715,178	-	-	89,709,386	1,239,077,264	-	1,239,077,264
Contractual adjustments and policy discounts	1,403,895,217	23,872,822	-	4,873,001	17,888,742	1,450,529,782	-	1,450,529,782
Total revenue deductions	2,836,029,354	61,051,545	-	4,873,001	126,420,044	3,028,373,944	-	3,028,373,944
Net patient service revenue	1,019,220,217	14,501,099	-	6,041,256	61,547,445	1,101,310,017	10,584	1,101,320,601
Nonpatient service revenue	20,599,288	741,500	-	3,122,003	2,888,635	27,351,426	-	27,351,426
Investment in joint ventures	230,514	-	-	-	-	230,514	-	230,514
Total operating revenue	1,040,050,019	15,242,599	-	9,163,259	64,436,080	1,128,891,957	10,584	1,128,902,541
OPERATING EXPENSES								
Salaries and employee benefits	574,438,849	8,246,197	-	6,636,830	32,332,409	621,654,285	6,600	621,660,885
Supplies	149,880,859	755,522	-	218,214	6,264,300	157,118,895	-	157,118,895
Purchased services	203,688,093	3,152,365	-	1,401,548	11,281,567	219,523,573	204,820	219,728,393
Utilities	8,282,807	253,306	-	137,590	1,241,532	9,915,235	-	9,915,235
Drugs	57,011,108	492,516	-	(255,426)	4,556,126	61,804,324	-	61,804,324
Depreciation	38,750,283	124,576	-	171,138	439,264	39,485,261	-	39,485,261
Insurance & taxes	5,581,844	34,805	-	53,365	333,226	6,003,240	240	6,003,480
Corporate overhead allocation	(11,522,283)	2,683,395	-	800,000	8,038,888	-	-	-
Total operating expenses	1,026,111,560	15,742,682	-	9,163,259	64,487,312	1,115,504,813	211,660	1,115,716,473
Operating income (loss)	13,938,459	(500,083)	-	-	(51,232)	13,387,144	(201,076)	13,186,068
NONOPERATING REVENUE (EXPENSES)								
Gain (loss) on disposal of assets	(200,000)	-	-	-	-	(200,000)	-	(200,000)
Investment income (loss), net of fees	1,075,483	83	1,000	-	320,750	1,397,316	263,960	1,661,276
Interest expense	(9,644,386)	-	-	-	(2,958)	(9,647,344)	-	(9,647,344)
Provisions for income tax	-	-	-	-	-	-	-	-
Net income (loss)	5,169,556	(500,000)	1,000	-	266,560	4,937,116	62,884	5,000,000

Erlanger Health System
Statement of Cash Flows
For the period ended June 30, 2020

Operating activities

Income from operations	\$ 35,270,824
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	39,234,455
Provision for self-insurance	(3,081,571)
Gain on disposal of assets	(470,640)
Changes in assets and liabilities:	
Net patient accounts receivable	38,044,963
Due to third party payers	118,503,848
Inventory and other current assets	7,265,989
Other assets	(197,876)
Accounts payable and accrued expenses	(16,829,644)
Accrued salaries and related liabilities	4,268,917
Deferred revenue	16,181,248
Other current liabilities and long-term liabilities	(4,893,733)
Net cash provided by operating activities	<u>233,296,780</u>

Capital and related financing activities

Acquisition and construction of capital assets	(24,714,715)
Proceeds from sale of assets	369,121
Principal paid on bonds payable and capital lease obligations	(8,288,038)
Proceeds from issuance of long-term debt	740,000
Interest payments on long-term debt	(8,805,030)
Contributions for capital assets	893,352
Net cash used in capital and related financing activities	<u>(39,805,310)</u>

Investing activities

Investment income	1,371,806
Payment received on note receivable	2,600,000
Net cash transferred to assets limited as to use	(5,145,126)
Net cash used in investing activities	<u>(1,173,320)</u>
Increase in cash and cash equivalents	192,318,150
Cash and cash equivalents, beginning of period	113,584,247
Cash and cash equivalents, end of period	<u>\$ 305,902,397</u>

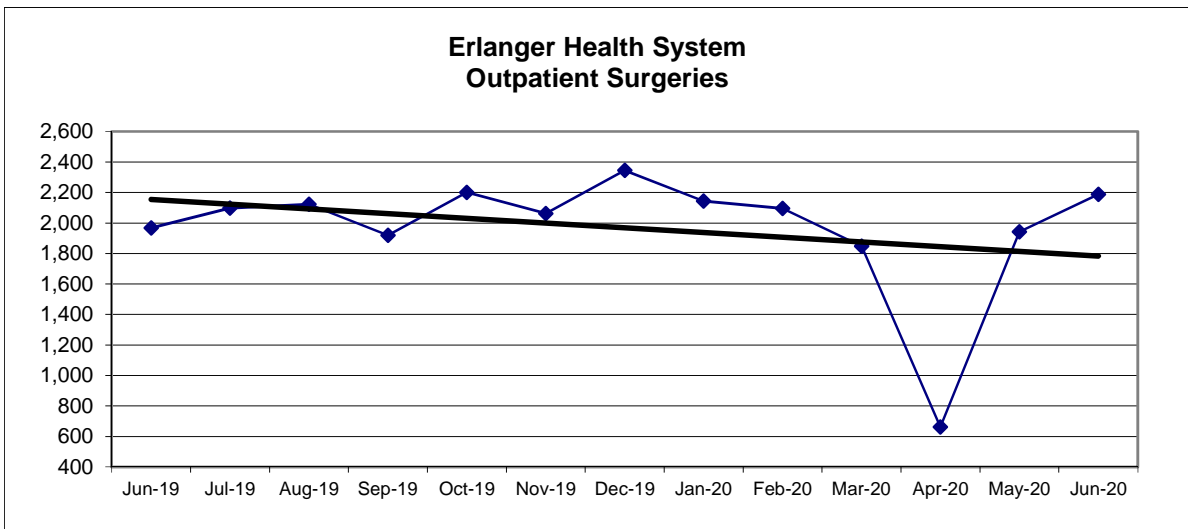
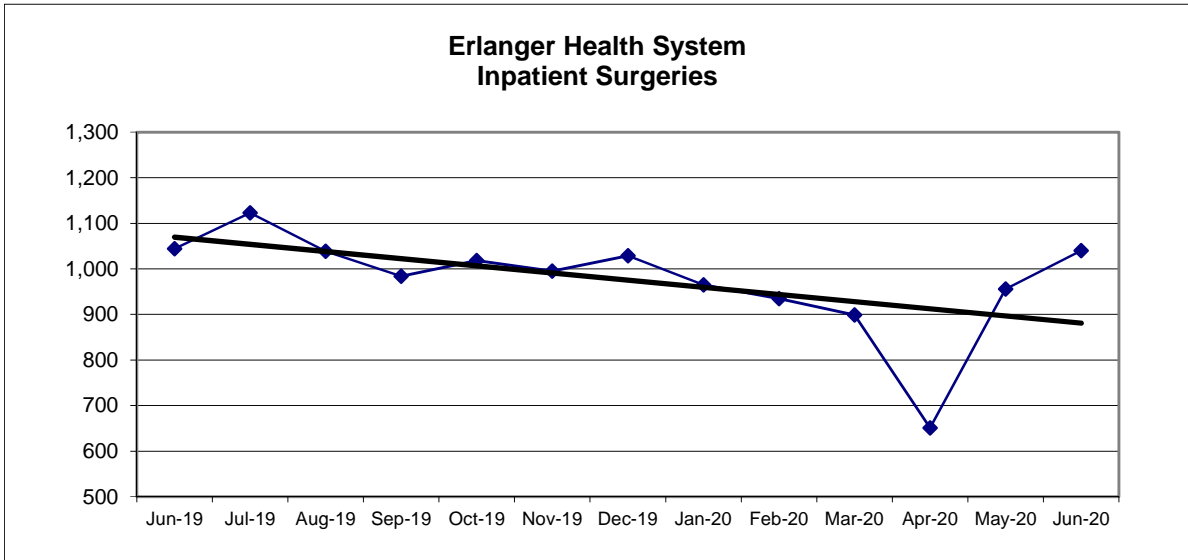
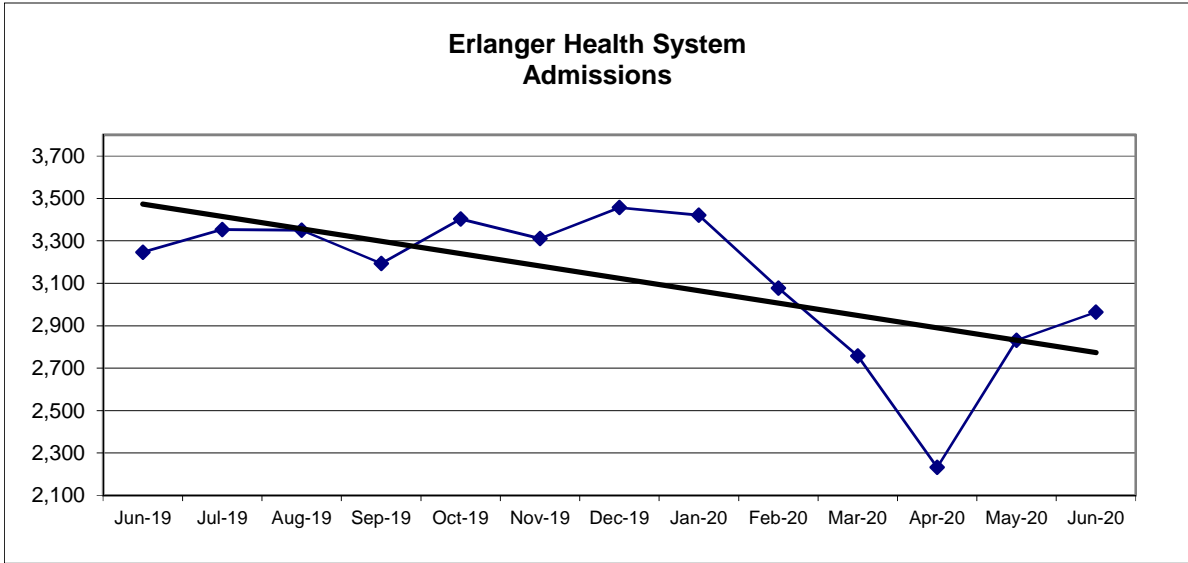
**ERLANGER HEALTH SYSTEM
CONSOLIDATED STATISTICAL VOLUMES
FOR THE PERIOD ENDING JULY 2019 TO JUNE 2020**

	YTD THROUGH 06/30/2020				
	ACTUAL	BUDGET	VARIANCE	PRIOR YEAR	CHANGE
<u>CENSUS</u>					
LICENSED BEDS	848	859	-1.3%	848	0.0%
BEDS IN SERVICE	696	698	-0.3%	698	-0.3%
AVERAGE DAILY CENSUS	516	551	-6.4%	546	-5.4%
OCCUPANCY PERCENTAGE	74.13%	78.96%	-6.1%	78.16%	-5.2%
<u>ADMISSIONS</u>					
BEH	25,738	29,920	-14.0%	28,027	-8.2%
TCT	3,216	3,590	-10.4%	3,545	-9.3%
EE	7,999	8,877	-9.9%	8,434	-5.2%
EN	401	530	-24.3%	523	-23.3%
EN SENIOR'S PROGRAM	0	0	0.0%	25	-100.0%
TOTAL	37,354	42,917	-13.0%	40,554	-7.9%
<u>CASE MIX INDEX</u>					
TOTAL PATIENT	1.68	1.64	2.6%	1.65	2.0%
TOTAL PATIENT EXCL NORMAL NEWBORN	1.81	1.77	2.5%	1.77	2.5%
TOTAL MEDICARE PATIENTS	1.92	1.90	1.1%	1.89	1.6%
BEH	1.96	1.92	2.1%	1.94	1.0%
TCT EXCL NORMAL NEWBORN	2.07	1.93	7.1%	1.89	9.4%
EE	0.98	0.96	2.5%	0.96	2.5%
<u>PATIENT DAYS</u>					
BEH	92,328	100,837	-8.4%	97,822	-5.6%
BEH ICU'S	37,760	40,385	-6.5%	40,934	-7.8%
TCT	7,414	8,224	-9.8%	8,159	-9.1%
TCT PICU	2,710	2,578	5.1%	2,739	-1.1%
TCT NICU	19,418	19,283	0.7%	18,839	3.1%
EE	21,860	23,362	-6.4%	23,260	-6.0%
EE NICU	1,574	1,836	-14.3%	1,542	2.1%
EN	5,771	5,212	10.7%	5,353	7.8%
EN SENIOR'S PROGRAM	0	0	0.0%	469	-100.0%
TOTAL	188,835	201,717	-6.4%	199,117	-5.2%
<u>AVERAGE LOS</u>					
TOTAL	5.06	4.70	7.6%	4.90	3.1%
MEDICARE	5.13	5.38	-4.6%	5.10	0.6%
CASE MIX ADJUSTED	3.00	2.87	4.8%	2.97	1.1%
BEH	5.05	4.72	7.1%	4.95	2.1%
TCT	9.19	8.38	9.6%	8.39	9.5%
EE	2.73	2.63	3.8%	2.76	-0.9%
SENIOR'S PROGRAM	0.00	0.00	0.0%	18.76	-100.0%
<u>OBSERVATION DAYS</u>					
BEH	5,982	5,269	13.5%	5,016	19.3%
TCT	1,471	1,774	-17.1%	1,634	-10.0%
EE	1,696	1,352	25.5%	1,393	21.8%
EN	80	52	52.9%	61	30.2%
TOTAL	9,229	8,447	9.3%	8,104	13.9%
<u>UTILIZATION</u>					
MEDICARE	20.2%	22.2%	-9.0%	21.9%	-7.8%
MEDICARE MGT	12.8%	11.8%	8.5%	12.2%	4.9%
MEDICAID/TENNCARE	20.2%	21.0%	-3.8%	20.6%	-1.9%
COMMERCIAL PAY	37.2%	36.2%	2.8%	36.2%	2.8%
INDIGENT/SELF-PAY	7.7%	6.8%	13.2%	7.1%	8.5%
OTHER	1.9%	2.0%	-5.0%	2.0%	-5.0%
<u>DISCHARGES BY FINANCIAL CLASS</u>					
MEDICARE	8,167	10,835	-24.6%	9,641	-15.3%
MEDICARE MGT	5,893	5,846	0.8%	6,226	-5.3%
MEDICAID/TENNCARE	8,380	9,377	-10.6%	8,748	-4.2%
COMMERCIAL PAY	11,722	13,267	-11.6%	12,313	-4.8%
INDIGENT/SELF PAY	3,165	3,081	2.7%	2,984	6.1%
OTHER	657	512	28.3%	660	-0.5%
TOTAL	37,984	42,918	-11.5%	40,572	-6.4%

**ERLANGER HEALTH SYSTEM
CONSOLIDATED STATISTICAL VOLUMES
FOR THE PERIOD ENDING JULY 2019 TO JUNE 2020**

YTD THROUGH 06/30/2020					
ACTUAL	BUDGET	VARIANCE	PRIOR YEAR	CHANGE	
<u>SURGICAL INPATIENTS</u>					
BEH	7,750	8,739	-11.3%	8,353	-7.2%
OSC	1,522	1,835	-17.1%	1,705	-10.7%
CV OR	840	946	-11.2%	937	-10.4%
TCT	707	754	-6.2%	718	-1.5%
MEC	27	30	-10.0%	31	-12.9%
EE	693	830	-16.5%	782	-11.4%
PLAZA SURGERY	95	150	-36.7%	142	-33.1%
TOTAL SURGICAL INPATIENTS	11,634	13,284	-12.4%	12,668	-8.2%
<u>SURGICAL OUTPATIENTS</u>					
BEH	5,819	5,613	3.7%	5,480	6.2%
OSC	1,458	1,317	10.7%	1,324	10.1%
CV OR	60	76	-21.1%	59	1.7%
TCT	5,591	6,396	-12.6%	6,432	-13.1%
MEC	1,212	1,075	12.7%	1,086	11.6%
EE	6,407	6,681	-4.1%	6,449	-0.7%
PLAZA SURGERY	3,082	4,000	-23.0%	3,926	-21.5%
TOTAL SURGICAL OUTPATIENTS	23,629	25,158	-6.1%	24,756	-4.6%
TOTAL SURGICAL PATIENTS	35,263	38,442	-8.3%	37,424	-5.8%
TOTAL SURGICAL HOURS	63,534	70,480	-9.9%	67,869	-6.4%
ORTHOPEDIC INPATIENT SURGERIES	3,713	4,272	-13.1%	4,023	-7.7%
NEUROSURGERY INPATIENT SURGERIES	1,464	1,641	-10.8%	1,565	-6.5%
IP HEART/THORACIC SURGERIES WITH CABS/VALVES	840	946	-11.2%	937	-10.4%
DAVINCI PROCEDURES	1,321	1,305	1.2%	1,244	6.2%
BARIASTRICS PROCEDURES	377	388	-2.8%	378	-0.3%
CARDIAC CATH LAB PATIENTS	2,527	2,732	-7.5%	3,052	-17.2%
EE CARDIAC CATH LAB PATIENTS	667	832	-19.8%	826	-19.2%
SURGERY I/P HRS/PROCEDURE	2.65	2.75	-3.5%	2.72	-2.4%
SURGERY O/P HRS/PROCEDURE	1.38	1.35	2.4%	1.38	0.3%
<u>BIRTHS</u>					
BEH L&D (BIRTHS)	2,650	2,863	-7.4%	2,812	-5.8%
EE (BIRTHS)	2,946	2,637	11.7%	2,669	10.4%
TOTAL	5,596	5,500	1.7%	5,481	2.1%
PHYSICIAN PRACTICE OUTPATIENT VISITS	610,032	659,884	-7.6%	584,777	4.3%
<u>HELICOPTER (PATS)</u>					
HELICOPTER-LIFEFORCE	1,791	1,953	-8.3%	1,842	-2.8%
HELICOPTER-OTHER VENDORS	464	451	2.9%	515	-9.9%
TOTAL	2,255	2,404	-6.2%	2,357	-4.3%
<u>EMERGENCY ROOM VISITS</u>					
BEH	50,935	56,564	-10.0%	54,864	-7.2%
TCT	32,913	38,632	-14.8%	39,099	-15.8%
EE	39,701	41,544	-4.4%	41,162	-3.5%
EN	12,202	13,347	-8.6%	13,200	-7.6%
TOTAL	135,751	150,087	-9.6%	148,325	-8.5%
<u>EMERGENCY ROOM ADMITS</u>					
BEH	15,409	21,211	-27.4%	18,920	-18.6%
TCT	1,989	3,107	-36.0%	3,005	-33.8%
EE	4,369	5,608	-22.1%	5,516	-20.8%
EN	442	602	-26.6%	577	-23.4%
TOTAL	22,209	30,528	-27.3%	28,018	-20.7%

Erlanger Medical Center
Surgery & Admission Trends



**ERLANGER HEALTH SYSTEM
ERLANGER BLEDSOE
CONSOLIDATED STATISTICAL VOLUMES
FOR THE PERIOD JULY 2019 TO JUNE 2020**

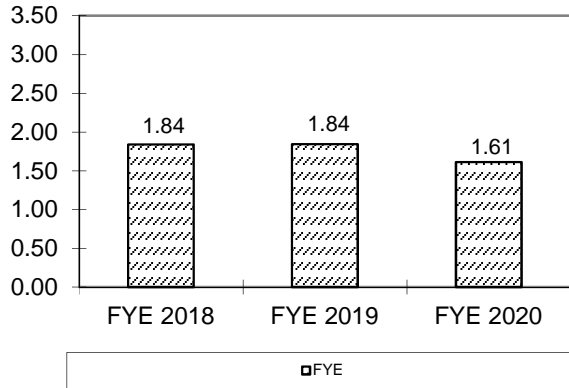
	YTD THROUGH 06/30/2020				
	ACTUAL	BUDGET	CHANGE	PRIOR YEAR	CHANGE
<u>CENSUS</u>					
LICENSED BEDS	25	25	0.0%	25	0.0%
BEDS IN SERVICE	25	25	0.0%	25	0.0%
AVERAGE DAILY CENSUS	4.83	5.78	-16.5%	5.61	-13.8%
OCCUPANCY PERCENTAGE	19.3%	23.1%	-16.5%	22.4%	-13.8%
<u>ADMISSIONS</u>					
ROUTINE CARE	119	132	-9.8%	145	-17.9%
SWING BED UNIT	77	110	-30.0%	109	-29.4%
TOTAL	196	242	-19.0%	254	-22.8%
<u>CASE MIX INDEX</u>					
MEDICARE	0.91	1.03	-11.2%	1.02	-10.3%
TOTAL PATIENT	0.92	1.02	-10.2%	1.00	-8.4%
<u>PATIENT DAYS</u>					
ROUTINE CARE	388	483	-19.7%	489	-20.7%
SWING BED UNIT	1,380	1,634	-15.5%	1,557	-11.4%
TOTAL	1,768	2,117	-16.5%	2,046	-13.6%
<u>AVERAGE LOS</u>					
TOTAL	9.02	8.75	3.1%	8.06	12.0%
ROUTINE CARE	3.26	3.66	-10.9%	3.37	-3.3%
SWING BED UNIT	17.92	14.85	20.6%	14.28	25.5%
<u>OBSERVATION DAYS</u>					
ROUTINE CARE	176	182	-3.1%	177	-0.2%
<u>GROSS REVENUE BY PAYER</u>					
MEDICARE	24.4%	26.5%	-7.9%	25.9%	-5.8%
MEDICARE MGT	18.6%	15.6%	19.2%	16.6%	12.0%
MEDICAID/TENNCARE	22.4%	22.7%	-1.3%	22.4%	0.0%
COMMERCIAL PAY	22.7%	22.2%	2.3%	22.4%	1.3%
INDIGENT/SELF-PAY	10.3%	11.4%	-9.6%	11.0%	-6.4%
OTHER	1.5%	1.7%	-11.8%	1.6%	-6.3%
<u>DISCHARGES BY PAYER</u>					
MEDICARE	126	152	-17.4%	169	-25.4%
MEDICARE MGT	43	20	116.2%	56	-23.2%
MEDICAID/TENNCARE	9	33	-72.9%	10	-10.0%
COMMERCIAL PAY	10	18	-43.4%	11	-9.1%
INDIGENT/SELF-PAY	6	19	-68.1%	5	20.0%
OTHER	0	1	-100.0%	7	-100.0%
TOTAL	194	243	-20.1%	258	-24.8%
<u>EMERGENCY ROOM VISITS</u>					
Bledsoe	4,817	4,946	-2.6%	4,916	-2.0%
Sequatchie Valley	9,436	10,541	-10.5%	10,592	-10.9%
TOTAL	14,253	15,487	-8.0%	15,508	-8.1%

**ERLANGER HEALTH SYSTEM
ERLANGER WESTERN CAROLINA HOSPITAL
CONSOLIDATED STATISTICAL VOLUMES
FOR THE PERIOD JULY 2019 THRU JUNE 2020**

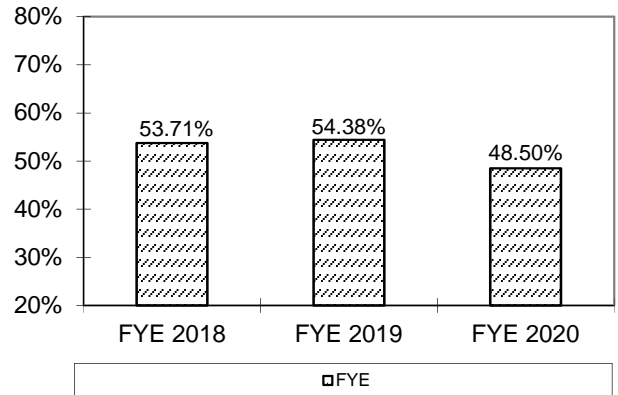
	YTD THROUGH 6/30/2020				
	ACTUAL	BUDGET	CHANGE	PRIOR YEAR	CHANGE
<u>CENSUS</u>					
LICENSED BEDS	57	57	0.0%	57	0.0%
BEDS IN SERVICE	25	25	0.0%	25	0.0%
AVERAGE DAILY CENSUS	14	18	-21.9%	17	-18.9%
OCCUPANCY PERCENTAGE	56.0%	71.7%	-21.9%	69.0%	-18.9%
<u>ADMISSIONS</u>					
ROUTINE CARE	1,426	1,799	-20.7%	1,742	-18.1%
SWING BED UNIT	44	12	266.7%	17	158.8%
TOTAL	1,470	1,811	-18.8%	1,759	-16.4%
<u>CASE MIX INDEX</u>					
MEDICARE	1.48	1.35	9.7%	1.42	4.6%
TOTAL PATIENT	1.43	1.35	5.8%	1.38	3.7%
<u>PATIENT DAYS</u>					
ROUTINE CARE	4,577	6,499	-29.6%	6,116	-25.2%
SWING BED UNIT	545	60	808.3%	180	202.8%
TOTAL	5,122	6,559	-21.9%	6,296	-18.6%
<u>AVERAGE LOS</u>					
TOTAL	3.48	3.62	-3.8%	3.58	-2.7%
ROUTINE CARE	3.21	3.61	-11.2%	3.51	-8.6%
SWING BED UNIT	12.39	5.00	147.7%	10.59	17.0%
<u>OBSERVATION DAYS</u>					
ROUTINE CARE	551	430	28.1%	467	18.0%
<u>GROSS REVENUE BY PAYER</u>					
MEDICARE	40.5%	42.7%	-5.2%	42.2%	-4.0%
MEDICARE MGT	16.8%	13.9%	20.9%	14.2%	18.3%
MEDICAID/TENNCARE	10.0%	12.1%	-17.4%	11.9%	-16.0%
COMMERCIAL PAY	20.0%	20.1%	-0.5%	19.5%	2.6%
INDIGENT/SELF-PAY	11.7%	11.1%	5.4%	11.3%	3.5%
OTHER	1.0%	0.1%	900.0%	0.9%	0.0%
<u>DISCHARGES BY PAYER</u>					
MEDICARE	693	887	-21.9%	855	-18.9%
MEDICARE MGT	248	283	-12.4%	277	-10.5%
MEDICAID	130	227	-42.7%	220	-40.9%
COMMERCIAL PAY	192	246	-22.0%	229	-16.2%
INDIGENT/SELF-PAY	158	131	20.6%	151	4.6%
OTHER	9	12	-25.0%	8	12.5%
TOTAL	1,430	1,786	-19.9%	1,740	-17.8%
<u>SURGICAL PATIENTS</u>					
INPATIENT	379	560	-32.3%	493	-23.1%
OUTPATIENT	1,940	2,140	-9.3%	2,088	-7.1%
TOTAL	2,319	2,700	-14.1%	2,581	-10.2%
EMERGENCY ROOM VISITS	15,928	18,540	-14.1%	18,459	-13.7%
EMERGENCY ROOM ADMITS	1,195	1,445	-17.3%	1,318	-9.3%
PHYSICIAN PRACTICE OUTPATIENT VISITS	54,741	59,173	-7.5%	51,205	6.9%

**Erlanger Health System
Ratio Analysis
June 30, 2020**

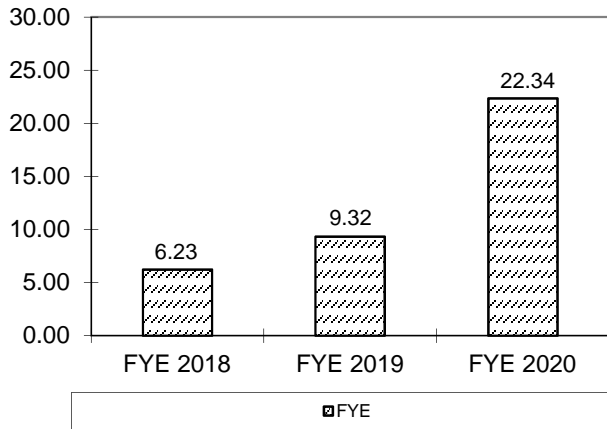
Current Ratio - Dollars held in current assets per dollars held in current liabilities



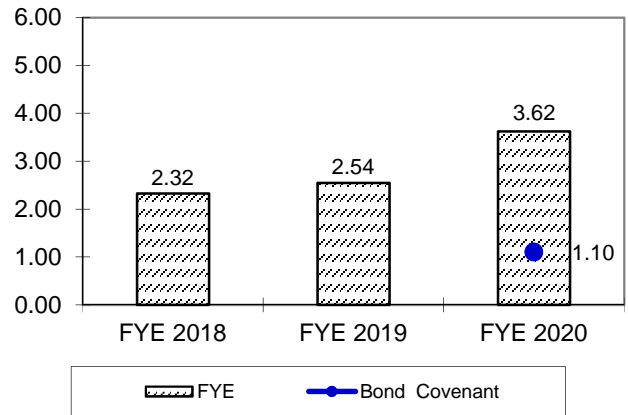
Indebtedness Ratio - Indebtedness divided by indebtedness plus equity



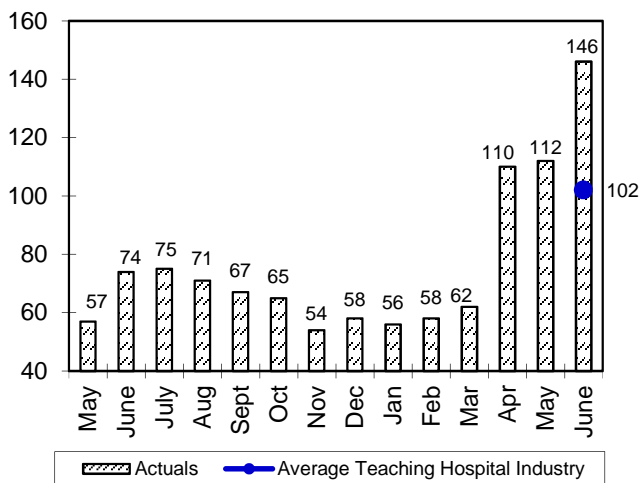
Cushion Ratio - relationship between total debt service and total cash reserves



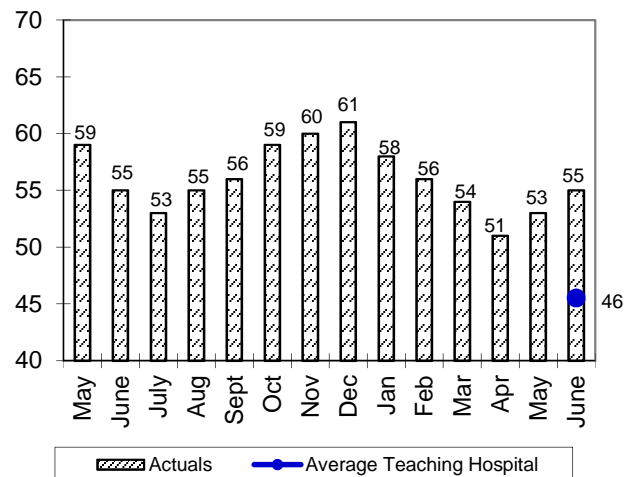
Debt Service Coverage Ratio - measures total debt service coverage (interest plus principal)



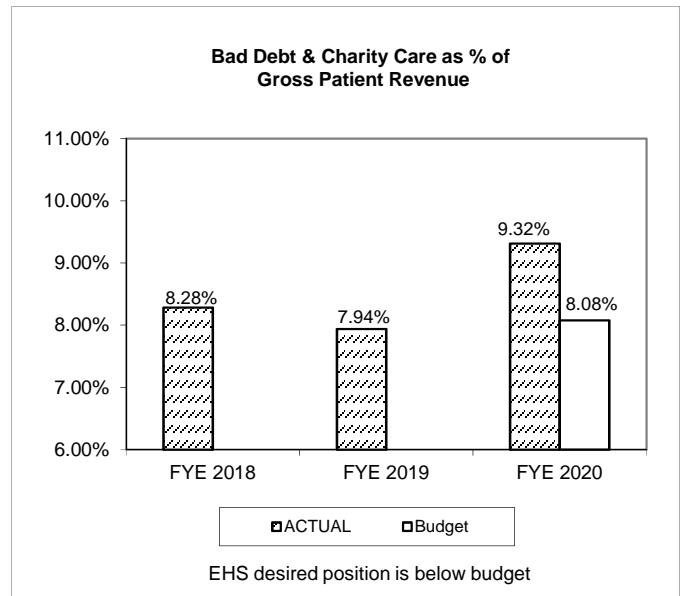
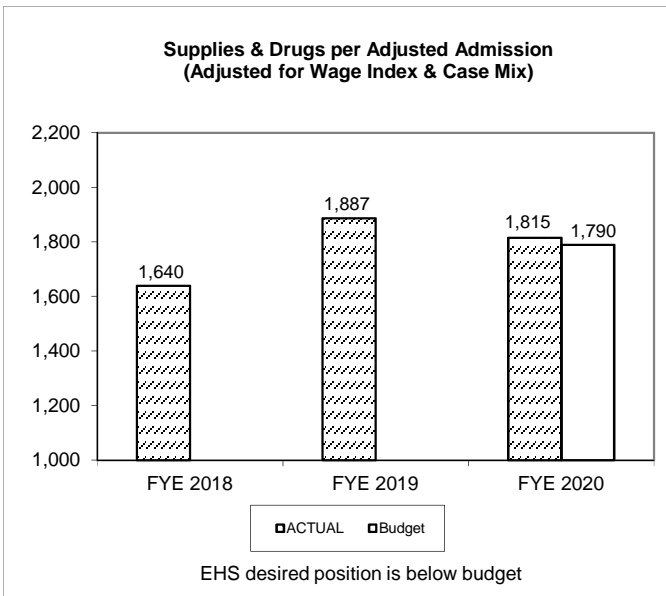
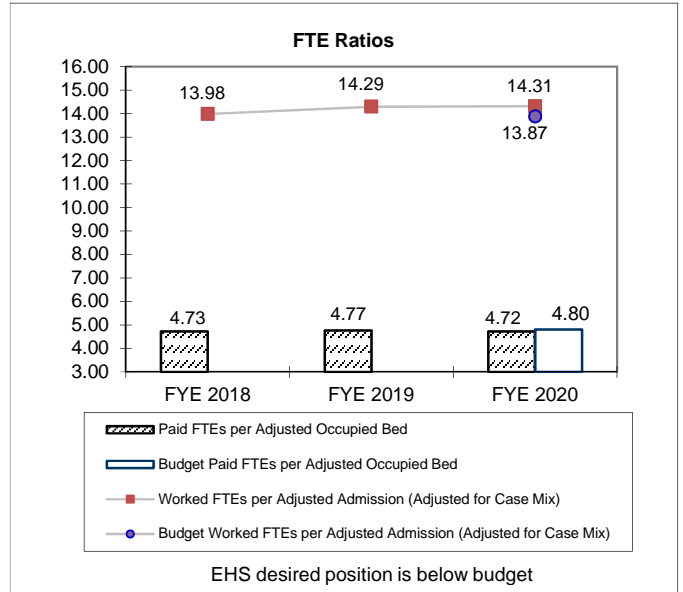
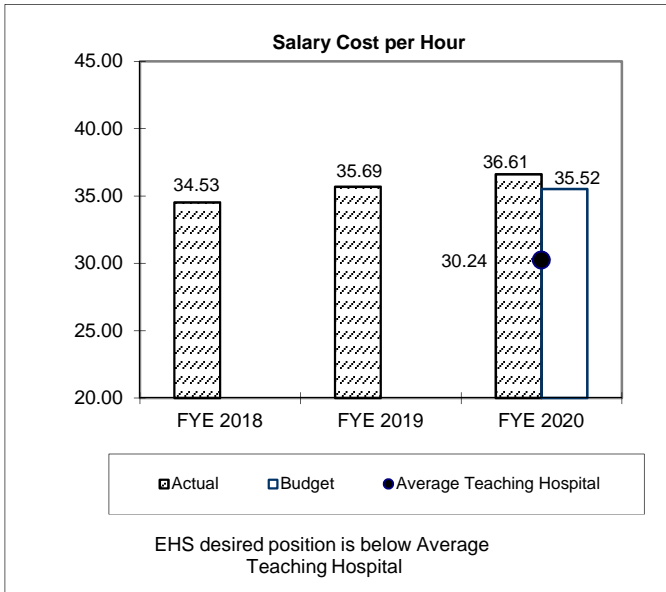
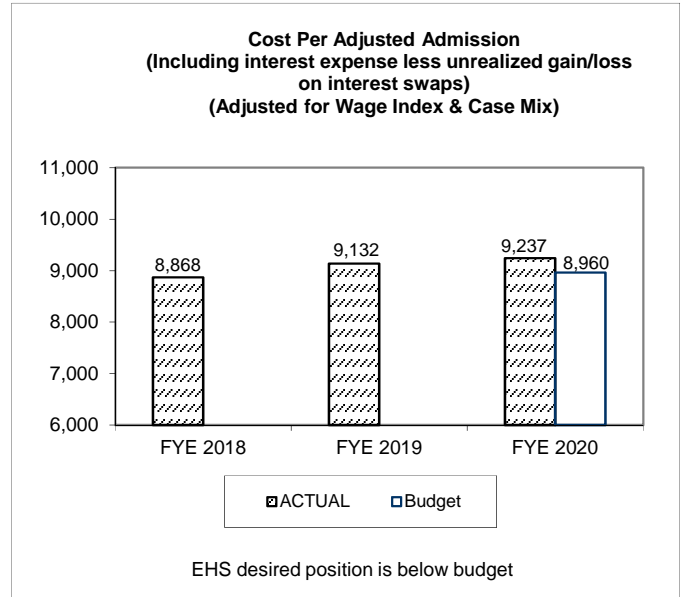
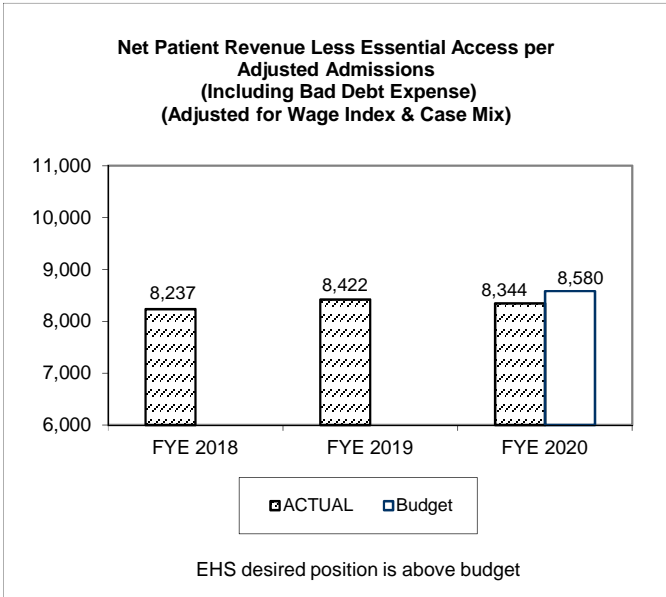
Days Cash on Hand



Net Days in Accounts Receivable



**Erlanger Health System
Ratio Analysis
June 30, 2020**



Erlanger Health System Notes to Combined Financial Statements (continued)

1. Selected Accounting Policies

Organization

Erlanger Health System (the System) was created by a private act passed by the General Assembly of the State of Tennessee on March 11, 1976, and adopted by a majority of the qualified voters of Hamilton County, Tennessee on August 5, 1976. The System owns and or operates Baroness Erlanger Hospital, Children's Hospital at Erlanger, Erlanger East Hospital, Erlanger North Hospital (collectively "Erlanger Medical Center"), Erlanger Bledsoe Hospital, Erlanger Western Carolina Hospital, Erlanger Community Health Centers, ContinuCare Health Services, Inc., and Erlanger Health Plan Trust. The System is considered the primary governmental unit for financial reporting purposes.

Charity Care

The System accepts patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain policies established by the County Auditor with regard to the Hamilton County indigent program or by the System for other patients of the System. Essentially, these policies define charity services as those services for which no minimal payment is anticipated. In assessing a patient's inability to pay, the System and the County utilize generally recognized poverty income levels, but also include certain cases where incurred charges are significant when compared to income of the patient. These charges are not included in net patient service revenue.

Investments

The System's investments are reported at fair market value based on quoted market prices in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The System invests in governmental and municipal bonds, corporate bonds, equity securities and short-term investments.

Accounting Standards

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the System has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Erlanger Health System Notes to Combined Financial Statements (continued)

2. Net Patient Service Revenue

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the statements of revenue and expenses is as follows:

	Year to date June 30, 2020	Year to date June 30, 2019
Inpatient service charges	\$ 1,926,342,968	\$ 1,956,711,873
Outpatient service charges	1,875,039,367	1,849,440,980
Gross patient service charges	3,801,382,335	3,806,152,853
Less:		
Contractual adjustments and other discounts	2,452,210,084	2,448,378,217
Hamilton County charity care (net of appropriation of \$1,500,000 in fiscal YTD 2020 and \$1,500,000 in fiscal YTD 2019 from Hamilton County)	6,195,293	9,825,126
Bad debt	86,028,853	115,540,435
Other charity care	263,326,683	182,942,831
Contractual adjustments, charity care, and bad debt	2,807,760,913	2,756,686,609
Net patient service revenue	\$ 993,621,422	\$ 1,049,466,244

The Private Act of the State of Tennessee establishing the System obligates the System to make its facilities and patient care programs available to the indigent residents of Hamilton County to the extent of funds appropriated by Hamilton County and adjusted operating profits, as defined. The annual appropriation from Hamilton County is not to be less than \$3,000,000 in each fiscal year without approval of the System, so long as the 1966 Hamilton County Sales Tax Agreement remains in effect. The annual appropriation from the Hamilton County Sales Tax Agreement was \$1.5M for fiscal year 2020 and 2019.

For fiscal 2019, Erlanger Medical Center recognized revenue of \$10,018,888 for essential access payment, \$23,249,236 from the Public Hospital Supplemental Payment Pool, \$674,316 from the State of Tennessee for Trauma and \$8,823,579 from the State of Tennessee for disproportionate share.

For fiscal 2020, Erlanger Medical Center recognized revenue of \$12,351,244 for essential access payment, \$23,814,971 from the Public Hospital Supplemental Payment Pool, \$916,390 from the State of Tennessee for Trauma, and \$9,083,971 from the State of Tennessee for disproportionate share.

3. Non-Patient Revenue

The System recognized \$55.9 million of stimulus funds as non-patient revenue in the current year to partially offset lost revenues and increased expenses during the COVID-19 pandemic.

Erlanger Health System Notes to Combined Financial Statements (continued)

4. Cash and Cash Equivalents

Cash and cash equivalents reported on the balance sheet include cash on hand and deposits with financial institutions including demand deposits and certificates of deposit. Cash and cash equivalents consist of the following:

	June 30, 2020	June 30, 2019
General Fund		
Demand deposits	\$ 268,417,482	\$ 88,076,384
Cash on hand	23,788	22,668
Temporary investments	37,461,127	25,485,195
Total cash and temporary investments	\$ 305,902,397	\$ 113,584,247

Temporary investments include certificates of deposit and repurchase agreements. Demand deposits are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. Demand deposits, certificates of deposit and repurchase agreements are collateralized with securities held by a third party in the System's name.

The System received \$93.1 million in Medicare advance payments to hedge against liquidity issues in the near future. Based on current regulations, this money will have to be paid back within the upcoming year. At this point, the System has not had to utilize these funds and has not drawn on the \$64 million lines of credit.

5. Net Property, Plant and Equipment

Net property, plant and equipment consist of the following:

	June 30, 2020	June 30, 2019
Land and Improvements	\$ 25,270,069	\$ 24,194,936
Buildings	300,915,011	302,107,129
Equipment	548,613,048	539,881,568
	874,798,128	866,183,633
Less accumulated depreciation	(581,541,545)	(556,296,331)
	293,256,583	309,887,302
Construction in progress	6,273,641	4,162,662
	\$ 299,530,224	\$ 314,049,964

Erlanger Health System Notes to Combined Financial Statements (continued)

6. Assets Whose Use is Limited

Assets whose use is limited consist of the following:

	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>
Investment Portfolio	\$ 111,302,776	\$ 106,243,398
Self Insurance Trust	7,096,943	3,392,892
HMO Trust	1,719,341	1,674,024
Restricted by others for specific purposes	<u>0</u>	<u>624,960</u>
	120,119,060	111,935,274
Less current portion	<u>(2,222)</u>	<u>(2,283)</u>
	<u>\$ 120,116,838</u>	<u>\$ 111,932,991</u>

Assets whose use is limited by the Board of Trustees for capital improvements consist primarily of United States Government and government agency obligations or other liquid assets, which are to be used for the replacement of property and equipment or for any other purposes so designated.

All funds are collateralized with securities held by the pledging financial institution's trust department or agent in the System's name.

Erlanger Health System Notes to Combined Financial Statements (continued)

7. Long-term Debt

Long-term debt consists of:

	June 30, 2020	June 30, 2019
\$149,920,000 Hospital Revenue and Refunding Bonds Series 2014, including bond issue premium of \$7,056,246 and \$7,347,225 in 2020 and 2019, respectively	\$ 156,776,246	\$ 157,167,225
	<u>156,776,246</u>	<u>157,167,225</u>
Other (includes 2018A Note of \$22,175,000)	44,106,224	51,514,370
	<u>200,882,470</u>	<u>208,681,595</u>
Less current portion	(13,043,446)	(5,644,324)
	<u>\$ 187,839,024</u>	<u>\$ 203,037,271</u>

8. Pension Plan

The System sponsors a single employer defined benefit pension plan covering substantially all employees meeting certain eligibility requirements. In addition to normal retirement benefits, the plan also provides for early retirement, delayed retirement, disability and death benefits. The System's funding policy is to fund actuarially determined costs, using the projected unit credit method, as they accrue. The System has the right to amend, in whole or in part, any or all of the provisions of the plan. Further information about the plan is contained in the pamphlet, Pension Plan Summary Description, copies of which are available from the Pension Committee. The plan covers all employees hired prior to July 1, 2009. The plan was frozen on June 21, 2014.

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, Accounting and Financial Reporting for Pensions. Statement No. 68 provides guidance for improved accounting and financial reporting by state and local government entities related to pensions. It also replaces the requirements of GASB Statement No. 27 and Statement No. 50, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. Additionally, the GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, which is effective concurrent with Statement No. 68. Among other requirements, Erlanger Health System recorded a net pension liability that is based on fiduciary plan net position rather than on plan funding. Erlanger Health System adopted these Statements in 2015.

Erlanger Health System Notes to Combined Financial Statements (continued)

9. Investments in Affiliates

Cyberknife of Chattanooga, LLC

During fiscal year 2011, Cyberknife was capitalized by contributions from the Primary Health System and certain other minority partners. Cyberknife provides radiation therapy services, specifically robotic stereotactic radiosurgical services, through the use of a cyberknife stereotactic radiosurgery system on the Primary Health System campus. The Primary Health System owns 51% of Cyberknife's outstanding membership units.

UT-Erlanger Medical Group, Inc

The Medical Group was formed June 30, 2011 and provides professional healthcare services to the public and related services through its employed and contracted licensed physicians and other supporting healthcare providers. The Medical Group has no members; however, the Primary Health System may access the Medical Group's services. The Primary Health System is not entitled to any potential earnings of the Medical Group except for compensation for services rendered to the Medical Group on its behalf. Currently, the entity is inactive.

ContinuCare Health Services, Inc.

During 2018, ContinuCare sold its home health and medical equipment businesses to a third party. As part of the home health sale, the Primary Health System received a 25% interest in a home health joint venture in exchange for certain intangible rights granted to the third party. This joint venture is accounted for under the equity method of accounting and is not material to the combined financial statements. ContinuCare is expected to continue to operate certain remaining lines of business.

Erlanger Behavioral Health

The Primary Health System is 20% owner of a joint venture to provide behavioral health services in its market area. The joint venture saw its first patients in June 2018.

Erlanger Express Care

In June 2019, the Primary Health System entered into a joint venture with EN, LLC to provide urgent care services in the market area. The System is 20% owner of the joint venture.

Erlanger Health System Notes to Combined Financial Statements (continued)

10. Medical Malpractice and General Liability Claims

As of January 1, 1976, the System adopted a self-insurance plan to provide for malpractice and general liability claims and expenses arising from services rendered subsequent to that date. In 1980, the System's Self-Insurance Trust Agreement was amended to include all coverages that a general public liability insurance policy would cover. In 1988, the Agreement was amended and restated to comply with amendments to the Tennessee Governmental Tort Liability Act and to formally include any claims and expenses related to acts of employees of the System. In accordance with Medicare and Medicaid regulations, the System is funding the estimated liabilities through an irrevocable trust fund with a bank. The annual deposit to the self-insurance trust fund is determined by management based on known and threatened claims, consultation with legal counsel and a report of an independent casualty actuary. Losses against the System are generally limited by the Tennessee Governmental Tort Liability Act to \$300,000 for injury or death to any one person in any one accident, occurrence or act and \$700,000 in the aggregate. However, claims against health care practitioners are not subject to the foregoing limits applicable to the System. Any such individuals employed by the System are covered by the Trust to the limits set forth therein.

In the opinion of management, the trust fund assets are adequate at June 30, 2020, to cover potential liability and malpractice claims and expenses, which may have been incurred to that date.

The System provides for claims and expenses in the period in which the incidence related to such claims occur based on historical experience and consultation with legal counsel. It is the opinion of management that the estimated accrued malpractice cost at June 30, 2020 and 2019 is adequate to cover potential liability and malpractice claims, which may have been incurred but not reported to the System. The System is a defendant in certain litigation arising from the normal course of business. The opinion of management and counsel is that losses, if any, that may arise from such litigation will not be material to the financial statements of the System.

11. 403(b) Retirement Plan

The System has a 403(b) and 401(a) matching program. The plans are for the benefit of generally all employees 25 years of age or older with at least 12 months of employment. The System will match 50% of the eligible participant's contribution up to 2% of the employee's earnings. For eligible employees hired on/after July 1, 2009, the System will make contributions equal to 3% of their earnings. Active employees in the frozen pension plan are eligible for this 3% company contribution as of July 6, 2014. These contributions will be invested in the employees' 401(a) plan, regardless if the employee is making contributions. These employees will also have access to the 401(a) matching program. Additionally, active employees in the frozen pension plan that met the Rule of 75 as of the freeze date, received a 2.5% company contribution through fiscal 2019. The match was temporarily suspended on March 30, 2020 for cost containment measures due to the COVID-19 pandemic.