



## **Quarterly Disclosure**

**First Quarter  
Fiscal 2022/2023**

**CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY**  
**DBA**  
**ERLANGER HEALTH SYSTEM**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FIRST QUARTER FISCAL 2022/2023**  
**QUARTERLY DISCLOSURE**

**KEY FINANCIAL INDICATORS**

The following key financial indicators are for Erlanger Health System as a whole. They are inclusive of the Primary Health System, ContinuumCare HealthServices, Inc., and the 51% controlling share of Cyberknife, LLC.

- Net income from operations for Erlanger Health System for the three months ended September 30, 2022 was \$7.0 million compared to net income from operations of \$8.3 million for the three months ended September 30, 2021. Included in net revenue are PHSP, Essential Access, and DSH payments totaling \$13.4 million.
- Total cash and temporary investment reserves are \$324.7 million (excluding \$124.1 million in investments).
- Net days in accounts receivable for Erlanger Health System (utilizing a three-month rolling average of net revenue) were 48 days at September 30, 2022 and 49 days at September 30, 2021. Net days cash on hand were 142 days at September 30, 2022 compared to 163 days at September 30, 2021. Net income before interest, taxes, depreciation and amortization (EBITDA) was \$18.0 million.

**MANAGEMENT DISCUSSION OF FINANCIAL PERFORMANCE**

For the three months ended September 30, 2022 compared to the three months ended September 30, 2021, total revenue increased by \$28.6 million, or 10.5% due to reclassification of 340b contract revenue into Other Revenue. Total expenses of \$295.6 million for the three months ended September 30, 2022 exceeded the three months ended September 30, 2021 by \$30.0 million or 11.3% due to reclassification of 340b contract revenue into Other Revenue. Interest expense increased by \$912,726 and 43.5% due to adoption of GASB 87 related to accounting for leases. Investment income decreased by \$2.4 million due to market fluctuations.

Net patient service revenue increased from \$268.4 million for the three months ended September 30, 2021 to \$278.5 million for the three months ended September 30, 2022, or 3.8%.

Admissions of 8,602 for the three months ended September 30, 2022 were consistent with prior year admissions of 8,597. Observation days increased from 2,673 for the three months ended September 30, 2021 to 3,075 for the three months ended September 30, 2022, or 15.0%. Air ambulance flights increased from 443 flights for the three months ended September 30, 2021 to 470 flights for the three months ended September 30, 2022, or 6.1%. Medicare case mix index was 1.99 for the three months ended September 30, 2022 compared to 2.04 for the three months ended September 30, 2021, a 2.5% decrease. Total surgical inpatients were 2,715 for the three months ended September 30, 2022, a 6.3% increase, compared to prior year of 2,555. Total surgical outpatients of 7,866 for the three months ended September 30, 2022 increased by 8.0% over prior year surgical outpatients of 7,281. Births for the three months ended September 30, 2022 were 1,407 compared to 1,375 in the comparable prior year period, a 2.3% increase. Total emergency room visits were 45,128 for the three months ended September 30, 2022 compared to 40,100 for the three months ended September 30, 2021, an increase of 12.5%.

For the three months ended September 30, 2022 compared to the three months ended September 30, 2021, salaries, wages, and benefits increased from \$146.7 million to \$152.7 million, or 4.11%. Paid FTEs per adjusted admission increased from 13.68 for the three months ended September 30, 2021 to 13.92 for the three months ended September 30, 2022. Labor management controls are in place to ensure cost containment as well as quality staffing levels. Supplies and drug expense increased from \$48.3 million for

## **MANAGEMENT DISCUSSION OF FINANCIAL PERFORMANCE (continued)**

the three months ended September 30, 2021 to \$71.7 million for the three months ended September 30, 2022, a 48.3% increase, due to reclassification of 340b contract revenue into Other Revenue. Purchased services (including utilities) of \$59.1 million for the three months ended September 30, 2022 approximated prior year of \$59.5 million. Depreciation expense was \$10.9 million for the three months ended September 30, 2022 compared to \$10.4 million for the three months ended September 30, 2021, a 4.9% increase. Insurance and taxes of \$1.2 million for the three months ended September 30, 2022 decreased 59.4% compared to prior year period .

## **OUTLOOK**

The State of Tennessee continues to review the TennCare program (the State's Medicaid program). The State also continues to support a Hospital Coverage Fee to offset shortfalls in the State's budget for TennCare. The fee has remained intact and TennCare rates have remained stable. Out-of-state Medicaid and TennCare changes would affect the Primary Health System's bottom line with TennCare and Medicaid patients representing approximately 21% of the payer mix. Self-pay patients represent approximately 6% of the charge utilization. Healthcare reform and future changes in Medicare regulations could also have an adverse effect on the Primary Health System's future operations since Medicare represents approximately 32% of the payer mix.

During fiscal year 2014, the Primary Health System was added as a participant to the Public Hospital Supplemental Payment Pool for public hospitals in Tennessee through a collaborative effort with local mayors, state senators and representatives, Hamilton County Medical Society, board members, physicians and hospital leadership. The inclusion of the Primary Health System in the pool netted \$29.1 million of additional federal funding for fiscal year 2022 and \$25.2 million for fiscal year 2021.

The Primary Health System recognized Virtual Disproportionate Share Hospital (DSH) payments totaling \$11.8 million from the State of Tennessee for fiscal year 2022 and \$12.0 million in 2021. Disproportionate share payments of \$9.9 million were recorded in fiscal year 2021 compared to \$7.0 million in 2022. Due to recent changes in CMS regulations and unfavorable litigation by hospitals that was denied review by the Supreme Court, the System has reserved a \$40.8 million liability based on its expected DSH recoupments resulting from these changes. Additionally, the Primary Health System recognized trauma funding of \$.9 million and \$1.1 million in fiscal years 2022 and 2021, respectively. Due to the 1966 Hamilton County Sales Tax Agreement expiring in May 2011, the Hamilton County appropriations to the Primary Health System have been reduced from \$3 million to \$1.5 million for both 2022 and 2021.

Operational and financial performance continued to show improvement in fiscal year 2022. The focus for the Primary Health System's management team is to continue to improve operating efficiencies and to contain costs. Erlanger is anticipating positive financial results for fiscal year 2023.

**CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY**  
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Balance Sheet Data  
As of September 30, 2022 and 2021

	<u>9/30/2022</u>	<u>9/30/2021</u>
<b>CURRENT ASSETS</b>		
Cash and temporary investments	\$ 324,653,521	\$ 265,826,029
Net patient accounts receivable	146,516,450	143,095,205
Other receivables	16,780,598	15,895,382
Inventories	24,272,368	23,336,891
Prepaid expenses	17,638,468	12,372,068
Total current assets	<u>529,861,405</u>	<u>460,525,575</u>
 <b>PROPERTY, PLANT, AND EQUIPMENT</b>	 <u>325,411,986</u>	 <u>276,015,943</u>
 <b>OTHER ASSETS:</b>		
Assets whose use is limited	124,075,640	204,496,914
Other assets	9,442,974	339,033
Total other assets	<u>133,518,614</u>	<u>204,835,947</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	 <u>2,107,654</u>	 <u>787,280</u>
 <b>TOTAL</b>	 <u><u>\$ 990,899,659</u></u>	 <u><u>\$ 942,164,745</u></u>
 <b>CURRENT LIABILITIES</b>		
Current maturities of long term debt	\$ 5,627,716	\$ 8,068,658
Current portion of lease liabilities	8,505,653	-
Accounts payable	86,126,253	60,371,121
Accrued salaries & related liabilities	58,239,005	68,102,327
Deferred revenue	28,451,242	24,730,094
Due to third party payors	89,891,695	149,340,033
Accrued Interest payable	3,755,223	3,673,622
Total current liabilities	<u>280,596,787</u>	<u>314,285,855</u>
 <b>NET PENSION LIABILITY</b>	 <u>52,939,966</u>	 <u>52,696,541</u>
 <b>RESERVE FOR OTHER LIABILITIES</b>	 <u>32,095,168</u>	 <u>31,180,190</u>
 <b>LONG - TERM DEBT</b>	 <u>247,314,010</u>	 <u>178,948,945</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	 <u>10,702,725</u>	 <u>9,093,245 *</u>
 <b>NET ASSETS</b>		
Unrestricted	279,252,614	251,473,523
Net investment in capital assets	72,470,260	88,998,340
Restricted	15,528,129	15,488,106
Total Net Assets	<u>367,251,003</u>	<u>355,959,969</u>
 <b>TOTAL</b>	 <u><u>\$ 990,899,659</u></u>	 <u><u>\$ 942,164,745</u></u>

\*Erlanger Health System adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, in fiscal year 2014. GASB No. 65 requires certain amounts previously reported as assets or liabilities be reclassified as deferred outflows or inflows. Such items include the unrecognized gain on a sale-leaseback transaction and losses on previously refunded debt.

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**Statement of Revenues and Expenses**  
**For the periods ended September 30, 2022 and 2021**

	Three Mos Ended 9/30/22	Three Mos Ended 9/30/21	Fiscal Year-to-Date 9/30/22	Fiscal Year-to-Date 9/30/21
Net patient service revenue	\$ 278,450,542	\$ 268,350,191	\$ 278,450,542	\$ 268,350,191
Other revenue	24,154,592	5,633,389	24,154,592	5,633,389
<b>Total revenue</b>	<b>302,605,134</b>	<b>273,983,580</b>	<b>302,605,134</b>	<b>273,983,580</b>
<b>Expenses</b>				
Salaries, wages and benefits	152,734,312	146,704,221	152,734,312	146,704,221
Supplies	42,260,927	38,993,432	42,260,927	38,993,432
Purchased services	55,346,295	56,593,622	55,346,295	56,593,622
Utilities	3,797,131	2,922,991	3,797,131	2,922,991
Drugs	29,407,092	9,349,334	29,407,092	9,349,334
Depreciation	10,868,257	10,358,682	10,868,257	10,358,682
Insurance and taxes	1,202,023	754,204	1,202,023	754,204
<b>Total expenses</b>	<b>295,616,037</b>	<b>265,676,486</b>	<b>295,616,037</b>	<b>265,676,486</b>
<b>Operating income</b>	<b>6,989,097</b>	<b>8,307,094</b>	<b>6,989,097</b>	<b>8,307,094</b>
<b>Nonoperating income/expense</b>				
Loss on disposal of assets	76,107	(48,140)	76,107	(48,140)
Investment income (loss)	(3,416,982)	(1,010,010)	(3,416,982)	(1,010,010)
Interest expense	(3,012,241)	(2,099,515)	(3,012,241)	(2,099,515)
<b>Net income</b>	<b>\$ 635,981</b>	<b>\$ 5,149,429</b>	<b>\$ 635,981</b>	<b>\$ 5,149,429</b>
Total margin	0.2%	1.9%	0.2%	1.9%
Operating margin	2.3%	3.0%	2.3%	3.0%

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Utilization  
For the periods ended September 30, 2022 and 2021

	Three Mos Ended 9/30/22	Three Mos Ended 9/30/21	Fiscal Year-to-Date 9/30/22	Fiscal Year-to-Date 9/30/21
Admissions	8,602	8,597	8,602	8,597
Patient Days	43,021	43,951	43,021	43,951
Observation Days	3,075	2,673	3,075	2,673
Average Length of Stay	5.00	5.11	5.00	5.11
Medicare Case Mix Index	1.99	2.04	1.99	2.04
Staffed Beds	800	754	800	754
Average Daily Census	468	478	468	478
Occupancy Rate	58.50%	63.40%	58.50%	63.40%
Surgical Inpatients	2,715	2,555	2,715	2,555
Surgical Outpatients	7,866	7,281	7,866	7,281
Total Surgeries	10,581	9,836	10,581	9,836
Births	1,407	1,375	1,407	1,375
Air Ambulance	470	443	470	443
Emergency Room Visits	45,128	40,100	45,128	40,100
Gross Patient Revenue By Payor Class				
Commercial	40.0%	39.9%	40.0%	39.9%
Medicare	31.6%	31.8%	31.6%	31.8%
TennCare/Medicaid	21.1%	20.4%	21.1%	20.4%
Self-Pay	6.2%	6.5%	6.2%	6.5%
Other	1.1%	1.4%	1.1%	1.4%
Total	100.0%	100.0%	100.0%	100.0%