HEALTH SERVICES AND DEVELOPMENT AGENCY
DECEMBER 17, 2014
APPLICATION SUMMARY

NAME OF PROJECT: Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Medical Center

PROJECT NUMBER: CN1409-038

ADDRESS: 975 East 3rd Street
Chattanooga (Hamilton County), Tennessee 37403

LEGAL OWNER: Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Medical Center
975 East 3rd Street
Chattanooga (Hamilton County), Tennessee 37403

OPERATING ENTITY: Not Applicable

CONTACT PERSON: Joseph M. Winick
(423) 778-8088

DATE FILED: September 12, 2014

FINANCING: Cash Reserves from operations

PROJECT COST: $4,597,711.00

PURPOSE FOR FILING: Acquisition of a 3.0 Tesla Magnetic Resonance Imaging (MRI) Fixed Unit at a cost in excess of $2 million

DESCRIPTION:

Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Medical Center (EMC) is seeking approval for the acquisition of a fixed 3.0 Tesla Magnetic Resonance Imaging (MRI) unit to be located at 975 East 3rd Street, Chattanooga (Hamilton County), Tennessee 37403. EMC currently operates three fixed 1.5 Tesla MRI units on campus. Although the proposed 4th MRI unit does not involve the initiation of a new service at EMC, it will add MRI capacity to the applicant's 10-county primary service area.

CRITERIA AND STANDARDS REVIEW
MAGNETIC RESONANCE IMAGING SERVICES

1. Utilization Standards for non-Specialty MRI Units.

a. An applicant proposing a new non-Specialty stationary MRI service should project a minimum of at least 2160 MRI procedures in the first year of service, building to a minimum of 2520 procedures per year by the second year of service, and building to a minimum of 2880 procedures per year by the third year of service and for every year thereafter.

Projected utilization for the proposed MRI unit is 2,350 in Year 1, increasing to 2,975 scans in Year 2, and 3,150 procedures in Year 3.

It appears that this criterion has been met.

b. Providers proposing a new non-Specialty mobile MRI service should project a minimum of at least 360 mobile MRI procedures in the first year of service per day of operation per week, building to an annual minimum of 420 procedures per day of operation per week by the second year of service, and building to a minimum of 480 procedures per day of operation per week by the third year of service and for every year thereafter.

c. An exception to the standard number of procedures may occur as new or improved technology and equipment or new diagnostic applications for MRI units are developed. An applicant must demonstrate that the proposed unit offers a unique and necessary technology for the provision of health care services in the Service Area.

The applicant is not requesting an exception to the standard, but would like to point out uninsured and vulnerable populations will have access to 3.0 Tesla MRI technology since Erlanger is a safety net provider.

d. Mobile MRI units shall not be subject to the need standard in paragraph 1 b if fewer than 150 days of service per year are provided at a given location. However, the applicant must demonstrate that existing services in the applicant's Service Area are not adequate and/or that there are special circumstances that require these additional services.

e. Hybrid MRI Units. The HSDA may evaluate a CON application for an MRI "hybrid" Unit (an MRI Unit that is combined/utilized with medical equipment such as a megavoltage radiation therapy unit or a positron emission tomography unit) based on the primary purposes of the Unit.

The criteria identified in items 1.b – 1.e above are not applicable to the applicant's proposed acquisition of a 3.0 Tesla MRI unit which would be added to the applicant's existing three 1.5T MRI units.

2. Access to MRI Units. All applicants for any proposed new MRI Unit should document that the proposed location is accessible to approximately 75% of the Service Area's population. Applications that include non-Tennessee counties in their proposed Service Areas should provide evidence of the number of existing MRI units that service the non-Tennessee counties and the impact on MRI unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity (if that data are available).

The applicant has designated Bledsoe, Bradley, Grundy, Hamilton, Marion, McMinn, Meigs, Polk, Rhea, and Sequatchie Counties in Tennessee. The 10 county service area population is within 40 minutes, or 34 miles of Erlanger Health System. The applicant did not include Northwest Georgia in the application since MRI utilization data is not available from the Georgia Department of Community Health.

It appears that this criterion has been met.

3. Economic Efficiencies. All applicants for any proposed new MRI Unit should document that alternate shared services and lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.

The applicant states that alternative services and technologies were investigated; however acquiring a 3.0 Tesla MRI will benefit the uninsured, low income and vulnerable populations served by Erlanger, improve the standard of care, improve economic efficiencies, and address the over capacity issues of the existing three 1.5 Tesla MRI units.

It appears that the applicant will meet this criterion.

4. Need Standard for non-Specialty MRI Units.

A need likely exists for one additional non-Specialty MRI unit in a Service Area when the combined average utilization of existing MRI service providers is at or above 80% of the total capacity of 3600 procedures, or 2880 procedures, during the most recent twelve month period reflected in the provider medical equipment report maintained by the HSDA. The total capacity per MRI unit is based upon the following formula:

Stationary MRI Units: 1.20 procedures per hour x twelve hours per day x 5 days per week x 50 weeks per year = 3,600 procedures per year

Mobile MRI Units: Twelve (12) procedures per day x days per week in operation x 50 weeks per year. For each day of operation per week, the optimal efficiency is 480 procedures per year, or 80 percent of the total capacity of 600 procedures per year.

A total of 29 stationary and .20 mobile MRI units were operating in the 10-county TN service area in 2013. If approved, this project plus 1 other application (Parkridge Medical Center, Inc., CN1408-035A) approved in November 2014 would increase the inventory to 31.2 MRI units. The MRI utilization of the 29.2 units in the 10 county service area was 60,841 in 2013, an average of approximately 2,083 MRI procedures per unit per year during the period. The combined occupancy averages approximately 72% of the 2,880 MRI standard for new units (HSDA Equipment Registry as of 10/31/14).

It appears that the applicant does not meet this criterion.

5. Need Standards for Specialty MRI Units.

This standard does not apply to this application.

6. Separate Inventories for Specialty MRI Units and non-Specialty MRI Units.

This standard does not apply to this application.

7. Patient Safety and Quality of Care. The applicant shall provide evidence that any proposed MRI Unit is safe and effective for its proposed use.

   a. The United States Food and Drug Administration (FDA) must certify the proposed MRI Unit for clinical use.

      The applicant has provided documentation in the application confirming that the proposed 3.0 Tesla MRI meets FDA certification requirements.

      It appears that this criterion has been met.

   b. The applicant should demonstrate that the proposed MRI Procedures will be offered in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

      The applicant has provided a letter dated September 22, 2014 from a licensed architect of an architectural/engineering firm stating that the renovation of existing space for installation of the proposed MRI unit will conform to applicable codes and standards.

      It appears that this criterion has been met.

   c. The applicant should demonstrate how emergencies within the MRI Unit facility will be managed in conformity with accepted medical practice.

      The applicant provided a copy of Erlanger's emergency response policy and procedure located on page A-52 of the original application.

      It appears that this criterion has been met.

   d. The applicant should establish protocols that assure that all MRI Procedures performed are medically necessary and will not unnecessarily duplicate other services.

      The applicant provided a copy of EMC's Medical Necessity policy on page A-54 of the original application.

      It appears that this criterion has been met.

e. An applicant proposing to acquire any MRI Unit or institute any MRI service, including Dedicated Breast and Extremity MRI Units, shall demonstrate that it meets or is prepared to meet the staffing recommendations and requirements set forth by the American College of Radiology, including staff education and training programs.

The applicant states that EMC is fully accredited by the American College of Radiology.

It appears that this criterion has been met.

f. All applicants shall commit to obtain accreditation from the Joint Commission, the American College of Radiology, or a comparable accreditation authority for MRI within two years following operation of the proposed MRI Unit.

The applicant states that it currently holds and will maintain accreditation by these organizations.

It appears that this criterion has been met.

g. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.

A list of patient transfer agreements is provided in Supplemental # on pages A-9 through A-11. The MRI service has a medical director that holds full admitting privileges.

It appears that this criterion has been met.

8. The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

The applicant indicates data will be submitted within the expected time frame.

It appears that this criterion has been met.

9. In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be evaluated, and Principle No. 2 in the State Health Plan, "Every citizen should have reasonable access to health care," the HSDA may decide to give special consideration to an applicant:

a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration; or

All 10 counties in EMC's MRI service area are designated as medically underserved areas by the Health Resources and Services Administration.

The applicant meets this criterion.

b. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program; or

EMC is classified by the Bureau of Tenncare as a "safety net hospital" and as a children's hospital.

The applicant meets this criterion.

c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program; or

The applicant contracts with all TennCare managed care organizations that operate in the service area.

It appears that the applicant meets this criterion.

d. Who is proposing to use the MRI unit for patients that typically require longer preparation and scanning times (e.g., pediatric, special needs, sedated, and contrast agent use patients). The applicant shall provide in its application information supporting the additional time required per scan and the impact on the need standard.

The applicant states EMC is classified as a "safety net provider" and as a "children's hospital". EMC indicates it takes 30 to 45 minutes longer in preparation time for children and patients that are sedated.

It appears that the applicant meets this criterion.

Staff Summary

The following information is a summary of the original application and all supplemental responses. Any staff comments or notes, if applicable, will be in bold italics.

EMC seeks approval to purchase a fourth MRI unit at a project cost of $4,597,711. The MRI unit to be acquired is a Siemens Magnetron Skyra 3.0 Tesla system with an expected useful life of 5 years. The proposed unit will provide higher magnet strength, newer technology, and higher resolution imaging for specialties such as Orthopedics, Neurology, and Pediatrics. The 3.0T MRI will be available from 8:00 am- 8:00 pm, Monday through Saturday. For comparison purposes, the applicant provides an operating schedule on page 16 of the original application of the existing three MRI units operated by EMC.

Ownership

EMC is owned by the Chattanooga-Hamilton County Hospital Authority. EMC is part of Erlanger Health System, which has 788 licensed beds in Hamilton County. The components of Erlanger Health System includes Erlanger Medical Center (688 licensed beds) which includes the Children's Hospital @ Erlanger (121 licensed beds) on the main campus; Erlanger East Hospital (43 licensed beds) on the East Campus and Erlanger North Hospital (12 licensed beds) on the North Campus. In addition to the hospitals in Hamilton County, Erlanger Health System includes Erlanger Bledsoe (25 licensed beds) in Bledsoe County.

Facility Information

- Erlanger is the region's safety net provider for adults and children.
- The 3.0 Tesla MRI unit will be placed on the 1st floor in 2,875 SF of space in Erlanger's Outpatient Services Department.
- The area will require a new vault and shielding to be installed.
- A floor plan drawing is included on page A-17 of the original application.
- The Joint Annual Report for 2013 indicates that EMC which includes the Children's Hospital is licensed for 688 beds and staffed 491 beds. Licensed bed occupancy was 50.3% and staffed bed occupancy was 70.5%.

The following provides the Department of Health's definition of the two bed categories pertaining to occupancy information provided in the Joint Annual Reports:

- *Licensed Beds - The maximum number of beds authorized by the appropriate state licensing (certifying) agency or regulated by a federal agency. This figure is broken down into adult and pediatric beds and licensed bassinets (neonatal intensive or intermediate care bassinets).*

- *Staffed Beds - The total number of adult and pediatric beds set up, staffed and in use at the end of the reporting period. This number should be less than or equal to the number of licensed beds.*

Project Need

The applicant states that acquisition of the proposed 3.0 Tesla MRI unit is needed for the following reasons:

- The average MRI patient wait time is approximately 2 weeks.
- A 3rd shift was implemented on July 2, 2014 to keep up with the MRI volume which has forced inpatients to be served during the night time hours and as a result has increased the length of stay and cost of care.
- There is a need to perform higher resolution MRIs which is becoming the standard of care in the areas of Orthopedics, Neurology, and Pediatrics.
- EMC's inability to perform 3T MRI scans has the potential to negatively impact the care of patients that relies on Erlanger as the regional safety net provider.
- In 2013 Erlanger referred a total of 759 patients that required 3.0 Tesla imaging.

Service Area Demographics

EMC's declared service area includes Bradley, Bledsoe, Grundy, Hamilton, Marion, McMinn, Meigs, Polk, Rhea and Sequatchie Counties.

- The total population of the primary service area is estimated at 635,764 residents in calendar year (CY) 2014 increasing by approximately 2.3% to 650,150 residents in (PY) 2018.
- The overall statewide population is projected to grow by 3.7% from 2014 to 2018.
- The latest 2014 percentage of the proposed primary service area population enrolled in the TennCare program is approximately 18.6% as compared to the statewide enrollment proportion of 18.8%.

Source: The University of Tennessee Center for Business and Economic Research Population Projection Data Files, Reassembled by the Tennessee Department of Health, Division of Policy, Planning and Assessment, Office of Health Statistics.

Applicant's Historical Utilization

- The historical MRI utilization for Erlanger Health System is reflected in the following table:

MRI Service (#Units)	2011	2012	2013	'11-'13 % Change
MRI (3)	10,730	10,915	11,558	+7.7%

Source: HSDA Equipment Registry

Historical Utilization of All MRI Providers in the Service Area

Per HSDA Equipment Registry records, the most recent utilization of the applicant's MRI service and all other MRI providers in the 10-county Tennessee MRI service area are shown in the following table.

Table 1- MRI Provider Historical Utilization, 2011-2013

Provider	Type	# MRI Units	County	Total MRI Scans 2011	MRI Scans 2012	MRI Scans 2013	% Change '11-'13	% of MRI Standard
Cleveland Imaging	PO	1	Bradley	668	2,769	3,509	425%	122%
Skyridge Medical Center	HOSP	1	Bradley	2,584	2,499	2,302	-11%	80%
Skyridge Medical Center - Westside	HOSP	2	Bradley	3,214	2,493	1,818	-43%	32%
Chattanooga Bone and Joint Surgeons, PC	PO	1	Hamilton	1,119	1,021	841	-25%	29%
Chattanooga Imaging Downtown	RPO	2	Hamilton	2,044	2,035	1,540	-25%	27%
Chattanooga Imaging East	RPO	1*	Hamilton	4,552	2,850	2,822	-38%	98%
Chattanooga Imaging Hixson	RPO	1	Hamilton	2,117	2,230	2,386	13%	83%
Chattanooga Orthopaedic Group, PC	PO	1	Hamilton	5,698	5,332	5,340	-6%	208%
Chattanooga Outpatient Center	ODC	2**	Hamilton	6,045	6,465	7,292	21%	127%
Erlanger East Campus	HOSP	1	Hamilton	1,275	704	568	-56%	20%
Erlanger Medical Center	HOSP	3	Hamilton	10,730	10,915	11,558	8%	134%
Memorial Hixson Hospital	HOSP	2	Hamilton	4,048	2,836	2,488	-39%	43%
Memorial Hospital	HOSP	3	Hamilton	8,211	4,096	4,356	-47%	50%
Memorial Ooltewah Imaging Center	H-Imaging	1	Hamilton	1,286	1,050	1,049	-18%	36%
Neurosurgical Group of Chattanooga, PC	PO	1	Hamilton	1,388	1,405	1,198	-14%	42%
Parkridge East Hospital	HOSP	1	Hamilton	934	919	1,024	10%	35%
Parkridge Medical Center	HOSP	1	Hamilton	2,320	2,496	2,054	-12%	71%
Tennessee Imaging and Vein Center	RPO	1	Hamilton	2,615	3,074	3,165	21%	109%
Starr Regional Medical Center	HOSP	1	McMinn	2,112	2,295	2,437	-7%	85%
***Starr Regional Medical Center-Etowah	HOSP	1	McMinn	1,028	1,078	479	-53%	17%
Copper Basin Medical Center	HOSP	1 (PT) (1 DY/WK)	Polk	239	176	250	5%	43%
Parkridge West Hospital	HOSP	1	Marion	884	953	884	0%	31%
Rhea Medical Center	HOSP	1	Rhea	1,289	1,530	1,481	15%	51%
Total		29.2	6 Counties	66,400	61,221	60,841	-8.4%	72%

** Chattanooga Imaging East transferred a MRI to Cleveland Imaging in 2011.*
***Chattanooga Outpatient Center added a MRI in 2013.*
****Starr Regional Medical Center-Etowah removed MRI from service in 2013*

Highlights of the information provided in Table 1 above are as follows:

- There are 22 providers of MRI services in 6 counties of the 10-county service area with 29.0 full time equivalent, fixed MRI units and .20 mobile units. Chattanooga Outpatient Imaging added a second fixed MRI unit in 2013 (CN1211-058A).
- Three (3) of the 22 providers currently operate 3.0 Tesla MRI units in the 10-county service area. All three are located in Hamilton County: Chattanooga Outpatient Center; Memorial Hospital; and Memorial Ooltewah Imaging Center.
- The chart above indicates that MRI volumes in the service area decreased by approximately 8.4% between 2011 and 2013. Despite the decline in total volumes, MRI utilization increased for 8 of the 22 providers during the period.
- 8 of the 22 MRIs in the 10-county service area met the MRI standard of 2,880 procedures per year in 2013.
- Overall, the MRIs in the service area averaged 2,083 MRI procedures per unit in CY 2013 or approximately 72% of the 2,880 MRI standard for existing units.
- In November 2014, Parkridge Medical Center, CN1408-035A, was approved by the Agency for the acquisition of a 2nd MRI at its hospital in Hamilton County (*like the applicant, Parkridge's's proposed unit was a 3.0 Tesla MRI scanner*). Descriptions of these projects are listed in the section immediately following the staff summary.

Projected Utilization

The applicant provides projected MRI utilization for its existing and proposed MRI units in Year 1, Year 2 and Year 3 as follows:

Projected Utilization of EMC's MRI Service

MRI unit	Year 1	Year 2	Year 3
Existing 1.5 T #1	3,701	3,612	3,690
Existing 1.5 T #2	3,290	3,211	3,280
Existing 1.5 T #3	3,290	3,211	3,280
Proposed 3.0T	2,350	2,975	3,150
Total	12,631	13,009	13,400
As a % of MRI standard	**110%**	**113%**	**116%**

Source: CN1409-038

Projected volume by specialty for the hospital's proposed 3T MRI service in Year 1 is provided in the table below.

Specialty	Year 1	Year 2	Year 3
Orthopedics	760	825	825
Neurologic	325	375	400
Pediatric	325	325	450
Other	275	275	525
Sub-Total	1685	2,050	2,200
Re-allocation	665	925	950
TOTAL	**2,350**	**2,975**	**3,150**

Source: CN1409-038

- The "other" volume estimate in the table above includes cardiac, urology, and women's health.
- The re-allocation volume is that which can be moved from EMC's 3 other MRI units due to over capacity.

Project Cost

Major costs of the $4,597,711 total estimated project cost are as follows:

- New MRI 3.0T cost of $3,013,702 (includes a 5 year service agreement costing $724,588) or approximately 65.5% of the total project cost.
- Facility construction plus contingency costs of $1,270,520, or approximately 27.3% of total cost
- For other details on Project Cost, see the Project Cost Chart on pages 48 of the application.

Historical Data Chart

- According to the Historical Data Chart Erlanger Health System experienced net operating losses for the three most recent years reported: $12,014,326 for 2011; $24,438,996 for 2012; and $24,835,171 for 2013.
- Average annual Net Operating Income (NOI) was unfavorable at approximately (1.4%) of annual net operating revenue for the year 2013.
- In supplemental 1, the applicant attached a copy of the FY 2014 audit report which shows a positive financial result of $17,917,993.

Projected Data Chart

- 2,350 MRI procedures are projected in Year 1 and 2,975 in Year 2.
- Net operating income less capital expenditures for the proposed MRI project will equal $498,891 in Year 1 increasing to $863,149 in Year 2.

Charges

In Year One of the proposed project, the average charge per MRI procedure is as follows:

Average Gross Charge
- $3,614

Average Deduction from Operating Revenue
- $3,184

Average Net Charge
- $430

Gross Charges per Procedure/Treatment
By Quartiles
YEAR = 2013

Equipment Type	1st Quartile	Median	3rd Quartile
MRI	$1,570.39	$2,175.15	$3,498.94
Source: Medical Equipment Registry – 8/11/2014			

- The proposed MRI charge per procedure of $3,614 is above the 3rd quartile of $3,498.94 of MRI charges statewide.

Medicare/TennCare Payor Mix

- TennCare/Medicaid-Charges will equal $413,165 in Year One representing 4.9% of total gross revenue.
- Medicare/Managed Medicare- Charges will equal $2,640,828 in Year One representing 31.1% of total gross revenue.
- The applicant is Medicaid certified, and contracts with all TennCare Managed Care Organizations that serve the region.

Financing

A September 5, 2014 letter from J. Britton Tabor, Chief Financial Officer of Erlanger confirms the applicant will finance the proposed project with funds from operations.

Erlanger's audited financial statements dated June 30, 2013 report $31,048,447 in cash and temporary investments, total current assets of $160,823,860, total current liabilities of $76,707,200 and a current ratio of 2.1:1.

Note to Agency Members: Current ratio is a measure of liquidity and is the ratio of current assets to current liabilities which measures the ability of an entity to cover its current liabilities with its existing current assets. A ratio of 1:1 would be required to have the minimum amount of assets needed to cover current liabilities.

Staffing
The applicant's proposed staffing for the 3.0T MRI service is 2.0 FTEs radiological technologists.

Licensure/Accreditation
EMC is licensed by the Tennessee Department of Health and is accredited by The Joint Commission.

Corporate documentation, real estate deed information, FDA Equipment Approval Letter, equipment quote, and radiopharmaceutical provider agreement are on file at the Agency office and will be available at the Agency meeting.

Should the Agency vote to approve this project, the CON would expire in **three** years.

CERTIFICATE OF NEED INFORMATION FOR THE APPLICANT:

There are no other Letters of Intent, denied or pending applications for this applicant.

Outstanding Certificates of Need:

Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Medical Center, CN1307-027A, has an outstanding Certificate of Need that will expire on December 1, 2016. The CON was approved at the October 23, 2013 Agency meeting for the initiation of positron emission tomography (PET) services and the acquisition of a PT/CT scanner. **The estimated project cost is $4,307,699.** *Project Status Update: An annual progress report submitted on November 25, 2014 indicated project has been completed. The final project report is pending.*

Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Medical Center, CN1207-034A, has an outstanding Certificate of Need that will expire December 1, 2015. The CON was approved at the October 24, 2012 Agency meeting for the renovation, upgrade and modernization of adult operating rooms, including the addition of four (4) new operating rooms. No other health care services will be initiated or discontinued. The estimated project cost is **$21,725,467.00.** *Project Status Update: An update submitted on November 25, 2014 indicated the project is under continuous construction, but is divided into multiple phases to allow work to be performed while the operating suite and related support facilities are in use. At the present time, this project is expected to be complete on schedule and within the authorized budget, prior to the expiration of the CON in November, 2015.*

Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger East, CN 0405-047AE, has an outstanding Certificate of Need that, following three modifications for extension of the time, will expire on December 1, 2016. The CON was approved at the October 27, 2004 Agency meeting for the construction of a new four (4) story patient tower and other ancillary space: transfer of seventy-nine (79) beds from the main Erlanger campus to the east campus: initiation of cardiac catheterization and acquisition of a magnetic resonance imaging (MRI) scanner. This project will decrease the main campus beds from 703 to 624 licensed beds and increase the east campus beds from 28 to 107 licensed beds. The estimated project cost is **$68,725,321.00.** *Project Status Update: On September 24, 2014 a fourth 2 year extension was granted until December 1, 2016. A November 18, 2014 update indicated financing had been secured to complete the remaining portions of the project. Detailed plans are in process and are expected to be submitted for final review before the end of 2014, with the remainder of construction to follow.*

CERTIFICATE OF NEED INFORMATION FOR OTHER SERVICE AREA FACILITIES:

There are no Letters of Intent, denied or pending applications for similar service area entities proposing this type of service.

Outstanding Certificates of Need:

Parkridge Medical Center, CN1408-035A, has an outstanding Certificate of Need that will expire January 1, 2017. The CON was approved at the November 19, 2014 Agency meeting for the acquisition of a second magnetic resonance imaging (MRI) unit for installation and use in 1,202 square feet of renovated space on the campus of Parkridge Medical Center (PMC) located at 2333 McCallie Avenue, Chattanooga (Hamilton County), TN. The second unit will be a 3.0T MRI. The estimated project cost is **$2,968,942.00.** *Project Status Update: This project was recently approved.*

PLEASE REFER TO THE REPORT BY THE DEPARTMENT OF HEALTH, DIVISION OF HEALTH STATISTICS, FOR A DETAILED ANALYSIS OF THE STATUTORY CRITERIA OF NEED, ECONOMIC FEASIBILITY, AND CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE IN THE AREA FOR THIS PROJECT. THAT REPORT IS ATTACHED TO THIS SUMMARY IMMEDIATELY FOLLOWING THE COLOR DIVIDER PAGE.

PME 11/26/2014

LETTER OF INTENT

LETTER OF INTENT
TENNESSEE HEALTH SERVICES & DEVELOPMENT AGENCY

The Publication of Intent is to be published in the Chattanooga Times Free Press, which is a newspaper of general circulation in Hamilton County, Tennessee, on or before September 10, 2014, for one day.

This is to provide official notice to the Health Services & Development Agency and all interested parties, in accordance with T.C.A. §68-11-1601 *et. seq.*, and the Rules of the Health Services & Development Agency, that Erlanger Medical Center, owned by the Chattanooga-Hamilton County Hospital Authority D/B/A Erlanger Health System, with an ownership type of governmental, and to be managed by itself, intends to file an application for a Certificate of Need for a Magnetic Resonance Imaging (Tesla 3.0) Scanner. No other health care services will be initiated or discontinued.

The facility and equipment will be located in Erlanger Medical Center, at 975 East 3rd Street, Chattanooga, Hamilton County, Tennessee 37403. The total project cost is estimated to be $ 4,597,711.00.

The anticipated date of filing the application is September 15, 2014.

The contact person for this project is Joseph M. Winick, Sr. Vice President, Erlanger Health System, 975 East 3rd Street, Chattanooga, Tennessee 37403, and by phone at (423) 778-7274.

Joseph M. Winick	September 5, 2014	Joseph.Winick@erlanger.org
	Date:	E-Mail:

The Letter Of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services & Development Agency
Andrew Jackson Building
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

The published Letter Of Intent must contain the following statement pursuant to T.C.A. §68-11-1607(c)(1): (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

ORIGINAL APPLICATION

CERTIFICATE OF NEED APPLICATION

Chattanooga-Hamilton County Hospital Authority

D / B / A

Erlanger Medical Center

Application For

Magnetic Resonance Imaging (Tesla 3.0)

On The Main Campus Of
Erlanger Health System

ERLANGER HEALTH SYSTEM
Chattanooga, Tennessee

Section A

APPLICANT PROFILE

Section A: APPLICANT PROFILE

Please enter all Section A responses on this form. All questions must be answered. If an item does not apply, please indicate "N/A". ***Attach appropriate documentation as an Appendix at the end of the application and reference the applicable item Number on the attachement.***

1. Name of Facility, Agency, or Institution.

Chattanooga-Hamilton County Hospital Authority
D / B / A
Erlanger Medical Center
975 East 3rd Street
Hamilton County
Chattanooga, TN 37403

2. Contact Person Available For Responses To Questions.

Joseph M. Winick, Sr. Vice President
Planning & Business Development
Erlanger Health System
975 East 3rd Street
Chattanooga, TN 37403
(423) 778-8088
(423) 778-7525 -- FAX
Joseph.Winick@erlanger.org -- E-Mail

3. Owner of the Facility, Agency, or Institution.

Chattanooga - Hamilton County Hospital Authority
D / B / A
Erlanger Health System
975 East 3rd Street
Hamilton County
Chattanooga, TN 37403
(423) 778-7000

4. Type of Ownership or Control.

A. Sole Proprietorship _____
B. Partnership _____
C. Limited Partnership _____
D. Corporation (For Profit) _____

A.	Corporation (Not-for-Profit)	____
B.	Governmental (State of TN or Political Subdivision)	X
C.	Joint Venture	____
D.	Limited Liability Company	____
E.	Other (Specify)	____

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.

-- A copy of the enabling legislation along with a copy of the certification by the Tennessee Secretary of State is attached at the end of this Application.

-- Please note that *Erlanger Health System* is a single legal entity and *Erlanger Medical Center* is an administrative unit of *Erlanger Health System.*

5. **Name of Management / Operating Entity (if applicable).**

** *Not Applicable.* **

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.

6. **Legal Interest in the Site of the Institution**
(*Check One*)

A.	Ownership	X
B.	Option to Purchase	____
C.	Lease of _____ Years	____
D.	Option to Lease	____
E.	Other (Specify)	____

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.

7. **Type of Institution**

(Check as appropriate - more than one response may apply)

A.	Hospital (Specify) General Medical / Surgical	X
B.	Ambulatory Surgical Treatment Center (ASTC), Multi-Specialty	
C.	ASTC, Single Specialty	
D.	Home Health Agency	
E.	Hospice	
F.	Mental Health Hospital	
G.	Mental Health Residential Treatment Facility	
H.	Mental Health Institutional Habilitation Facility (ICF/MR)	
I.	Nursing Home	
J.	Outpatient Diagnostic Center	
K.	Recuperation Center	
L.	Rehabilitation Facility	
M.	Residential Hospice	
N.	Non-Residential Methadone Facility	
O.	Birthing Center	
P.	Other Outpatient Facility (Specify)	
Q.	Other (Specify)	

8. **Purpose of Review**

(Circle Letter(s) as appropriate - more than one response may apply)

A.	New Institution	
B.	Replacement/Existing Facility	
C.	Modification/Existing Facility	
D.	Initiation of Health Care Service As Defined In TCA § 68-11-1607(4) (Specify)	
E.	Discontinuance of OB Services	
F.	Acquisition of Equipment	X
G.	Change in Beds	

[*Please note the type of change by underlining the appropriate response:* Increase, Decrease, Designation, Distribution, Conversion, Relocation]

H. Change of Location _____
I. Other (Specify) _____

_____

9. Bed Complement Data

Please indicate current and proposed distribution and certification of facility beds.

		Licensed Beds	*(*) CON Beds*	*Staffed Beds*	*Beds Proposed*	*TOTAL Beds at Completion*
A.	Medical	251		144		251
B.	Surgical	193		114		193
C.	Long-Term Care Hospital					
D.	Obstetrical	40		40		40
E.	ICU / CCU	91		91		91
F.	Neonatal	64		64		64
G.	Pediatric	49		49		49
H.	Adult Psychiatric					
I.	Geriatric Psychiatric					
J.	Child / Adolescent Psychiatric					
K.	Rehabilitation					
L.	Nursing Facility (Non – Medicaid Certified)					
M.	Nursing Facility Level 1 (Medicaid only)					
N.	Nursing Facility Level 2 (Medicare only)					
O.	Nursing Facility Level 2 (dually certified Medicaid / Medicare)					
P.	ICF / MR					
Q.	Adult Chemical Dependency					
R.	Child and Adolescent Chemical Dependency					
S.	Swing Beds					
T.	Mental Health Residential Treatment					
U.	Residential Hospice					
	TOTAL	688		502		688

(*) CON Beds approved but not yet in service.

*** ***NOTE*** - Erlanger Medical Center operates under Tennessee, Dept. of Health -- License No. 000140.

10. Medicare Provider Number **044-0104**

Certification Type General Medical/Surgical

11. Medicaid Provider Number **044-0104** (** See note.)

Certification Type General Medical/Surgical

** Please note that the same provider number for Medicare has been shown for Medicaid as well. This is because the individual TennCare MCO's each assign their own particular provider ID numbers.

12. If this is a new facility, will certification be sought for Medicare and / or Medicaid ?

Yes _____ No _____

** Not Applicable - *Erlanger Medical Center* currently participates in both the Medicare and TennCare/Medicaid programs.

13. Identify all TennCare Managed Care Organizations / Behavioral Health Organizations (MCO's/BHO's) operating in the proposed service area.* Will this project involve the treatment of TennCare participants ?** *Yes* **If the response to this item is yes, please identify all MCO's/BHO's with which the applicant has constracted *or plans to contract.

Discuss any out-of-network relationships in place with MCO's/BHO's in the area.

Response

With the initiation of the *Health Care Exchanges* under the *Affordable Care Act* on January 1, 2014; *Blue Network E* enrolled over 10,000 uninsured people and *Erlanger* is the only provider in this network Further, an additional 7,000 people were enrolled in *Blue Network S* and *Erlanger* is one of only two providers in this network. *Erlanger* is the low cost and safety net provider in the regional service area and participates in narrow networks to facilitate needed care for those who would otherwise not be able to receive it.

Erlanger currently has contracts with the following entities.

A. TennCare Managed Care Organizations

-- BlueCare
-- TennCare *Select*
-- United Healthcare Community Plan
(Children's Medical Services under age 21 & High Risk Maternity Only)
-- AmeriGroup Community Care

B. Georgia Medicaid Managed Care Organizations

-- AmeriGroup Community Care
-- Peach State Health Plan
-- WellCare Of Georgia

C. Commercial Managed Care Organizations

-- Blue Cross / Blue Shield of Tennessee
- Blue Network P
- Blue Network S
- Blue Network E
- Blue CoverTN
- Cover Kids
- AccessTN
- Blue Advantage
-- Blue Cross of Georgia (HMO & Indemnity)
-- Bluegrass Family Health, Inc.
(includes Signature Health Alliance)
-- CIGNA Healthcare of Tennessee, Inc.
(includes LocalPlus)
-- UNITED Healthcare of Tennessee, Inc.
(Commercial & Medicare Advantage)
-- Aetna Health
-- Health Value Management D/B/A Choice Care Network (Commercial & Medicare Advantage)
-- HUMANA (Commercial & Medicare Advantage)
-- HUMANA Military
-- HealthSpring (Commercial & Medicare Advantage)
-- Windsor Health Plan (Medicare Advantage)
-- Olympus Managed Health Care, Inc.

D. Alliances

-- Health One Alliance

E. Networks

-- Multi-Plan (includes Beech Street & PHCS)
-- MCS Patient Centered Healthcare
-- National Provider Network
-- NovaNet (group health)
-- USA Managed Care Corp.
-- MedCost
-- Alliant Health Plan
-- Crescent Preferred Provider Organization
-- Evolutions Healthcare System
-- Prime Health Resources
-- Three Rivers Provider Network
-- Galaxy Health Network
-- First Health Network
-- Integrated Health Plan
-- Logicomp Business Solutions, Inc.
-- HealthSCOPE Benefits, Inc.
-- HealthCHOICE (Oklahoma State & Education Employees Group Insurance Board)

F. Other

-- Alexian Brothers Community Services

Section B

PROJECT DESCRIPTION

Section B: PROJECT DESCRIPTION

Please answer all questions on 8 ½" x 11" white paper, clearly typed and spaced, identified correctly and in the correct sequence. In answering, please type the question and the response. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer. If a particular question does not apply to your project, indicate "Not Applicable (NA)" after that question.

I. Provide a brief executive summary of the project not to exceed two pages. Topics to be included in the executive summary are a brief description of proposed services and equipment, ownership structure, service area, need, existing resources, project cost, funding, financial feasibility and staffing.

Response

Erlanger Medical Center, the region's safety net provider for adults and children, seeks approval for acquisition of a 3.0 Tesla MRI unit. *EMC's* utilization of the 3 MRI units which we currently have was 11,558 procedures in 2013, with an average utilization per unit of 3,853 procedures. This utilization is 34% higher than optimal capacity of 2,880 procedures per unit (i.e.-80% threshold) and 7% higher than full utilization of 3,600 procedures per unit. On July 2, 2014, we implemented a 3rd shift (i.e.-night shift) in our MRI dept. so that we could keep up with the volume. With such high utilization and inpatients being served during night time hours, this needlessly increases the length of stay and cost of care.

We are performing the MRI scans for inpatients on the 3rd shift, which is not optimal for patient care when they should ideally be resting. This actually may increase the cost of inpatient care to an extent because the length of stay may be longer than it would be otherwise. Ultimately, with the addition of a 4th MRI unit, *EMC* expects that its length of stay and cost of inpatient care may be reduced.

In addition to high utilization, we have a need to perform MRI scans with newer technology for patients that require higher resolution imaging. The newer technology of Tesla 3.0 is becoming the standard of care in imaging such

as Orthopedics, Neurology and Pediatrics. Currently, patients which require this type of imaging are being referred outside the *Erlanger* system of care. In 2013 we referred a total of 759 patients that required 3.0 Tesla imaging.

Currently, *Erlanger's* inability to perform this type of imaging has the potential to negatively impact the care of patients that rely on our position in Southeast Tennessee as the safety net provider. With the initiation of the *Health Care Exchanges* under the *Affordable Care Act* on January 1, 2014; *Blue Network E* enrolled over 10,000 uninsured people and *Erlanger* is the only provider in this network. Further, an additional 7,000 people were enrolled in *Blue Network S* and *Erlanger* is one of only two providers in this network. *Erlanger* is the low cost and safety net provider in the regional service area and participates in narrow networks to facilitate needed care for those who would otherwise not be able to receive it.

II. Provide a detailed narrative of the project by addressing the following items as they relate to the proposal.

A. Describe the construction, modification and / or renovation to the facility (exclusive of major medical equipment covered by T.C.A. section 68-11-1601 *et seq.*) including square footage, major operational areas, room configuration, etc. Applicants with hospital projects (construction cost in excess of $ 5 million) and other facility projects (construction cost in excess of $ 2 million) should complete the Square Footage And Cost Per Square Foot Chart. Utilizing the attached Chart, applicants with hospital projects should complete Parts A.-E. by identifying as applicable nursing units, ancillary areas, and support areas affected by this project. Provide the location of the unit/service within the existing facility along with current square footage, where, if any, the unit/service will relocate temporarily during construction and renovation, and then the location of the unit/service with proposed square footage. The total cost per square foot should provide a breakout between new construction and renovation cost per square foot. Other facility projects

need only complete Part B.-E. Please also discuss and justify the cost per square foot for this project.

If the project involves none of the above describe the development of the proposal.

Response

The 3.0 Tesla MRI unit will be placed on the 1st floor of *Erlanger's* Outpatient Services Dept. With some of the space currently occupied, the outpatient *Bone Density* and *Ultrasound* areas will be relocated. This space requires a new MRI vault and shielding to be installed and the total area for thes project will be 2,875 SF. No nursing units or other departments will be affected by this project.

B. Identify the number of beds increased, decreased, converted, relocated, designated, and/or distributed by this application. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the existing services.

Response

** *Not Applicable.* **

Square Footage & Cost Per Square Foot Chart

The *Square Footage & Cost Per Square Foot Chart* is not applicable to this CON application.

C. As the applicant, describe your need to provide the following healthcare services (if applicable to this application):

1.	Adult Psychiatric Services	N/A
2.	Alcohol and Drug Treatment for Adolescents (exceeding 28 days)	N/A
3.	Birthing Center	N/A
4.	Burn Units	N/A
5.	Cardiac Catheterization Services	N/A
6.	Child and Adolescent Psychiatric Services	N/A
7.	Extracorporeal Lithotripsy	N/A

8.	Home Health Services	N/A
9.	Hospice Services	N/A
10.	Residential Hospice	N/A
11.	ICF/MR Services	N/A
12.	Long-Term Care Services	N/A
13.	Magnetic Resonance Imaging (MRI)	*** See Below.*
14.	Mental Health Residential Treatment	N/A
15.	Neonatal Intensive Care Unit	N/A
16.	Non-Residential Methadone Treatment Centers	N/A
17.	Open Heart Surgery	N/A
18.	Positron Emission Tomography	N/A
19.	Radiation Therapy/Linear Accelerator	N/A
20.	Rehabilitation Services	N/A
21.	Swing Beds	N/A

Response

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D. Describe the need to change location or replace an existing facility.

Response

*** Not applicable. ***

E. Describe the acquisition of any item of major medical equipment (as defined by the Agency Rules and the Statute) which exceeds a cost of $ 2.0 million; and/or is a magnetic resonance imaging (MRI) scanner, positron emission tomography (PET) scanner, extracorporeal lithotripter and/or linear accelerator by responding to the following:

1. For fixed site major medical equipment (not replacing existing equipment).

   a. Describe the new equipment, including:

      1. Total Cost (as defined by Agency Rule).
      2. Expected useful life.
      3. List of clinical applications to be provided.
      4. Documentation of FDA approval.

   Response

The MRI unit to be acquired is a Siemens Magnetom Skyra 3.0 Tesla system with a total project cost, as defined by Agency rule, of $ 4,597,711. The expected useful life is 5 years. The newer technology of higher resolution imaging with of 3.0 Tesla is becoming the standard of care in imaging for specialties such as Orthopedics, Neurology and Pediatrics. A copy of the letter from the FDA approving this unit for commercial use is attached at the end of this CON application.

b. Provide current and proposed schedules of operations.

Response

The schedule of operation for the Tesla 3.0 unit will be 8:00 am - 8:00 pm, Monday - Saturday. The 3.0 Tesla unit will be open on Saturday's to promote access to the service.

The schedule of operation for the 3 MRI units which we currently have, is as follows. It should be noted that this schedule not only accommodates our high utilization, but also promotes access availability of this service to the community.

Unit No. 1 -	M-F	7 am - 11 pm
	Sa-Su	8 am - 8 pm
Unit No. 2 -	M-F	7 am - 11 pm
Unit No. 3 -	M-F	7 am - 11 pm

2. For mobile major medical equipment:

a. List all sites that will be served.
b. Provide current and proposed schedules of operations.
c. Provide the lease or contract cost.
d. Provide the fair market value of the equipment.
e. List the owner for the equipment.

Response

8.	Home Health Services	N/A
9.	Hospice Services	N/A
10.	Residential Hospice	N/A
11.	ICF/MR Services	N/A
12.	Long-Term Care Services	N/A
13.	Magnetic Resonance Imaging (MRI)	** *See Below.*
14.	Mental Health Residential Treatment	N/A
15.	Neonatal Intensive Care Unit	N/A
16.	Non-Residential Methadone Treatment Centers	N/A
17.	Open Heart Surgery	N/A
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D. Describe the need to change location or replace an existing facility.

Response

** *Not applicable.* **

E. Describe the acquisition of any item of major medical equipment (as defined by the Agency Rules and the Statute) which exceeds a cost of $ 2.0 million; and/or is a magnetic resonance imaging (MRI) scanner, positron emission tomography (PET) scanner, extracorporeal lithotripter and/or linear accelerator by responding to the following:

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2. For mobile major medical equipment:

a. List all sites that will be served.
b. Provide current and proposed schedules of operations.
c. Provide the lease or contract cost.
d. Provide the fair market value of the equipment.
e. List the owner for the equipment.

Response

*** Not Applicable. ***

3. Indicate applicant's legal interest in equipment (i.e.-purchase, lease, etc.). In the case of equipment purchase include a quote and/or proposal from an equipment vendor, or in the case of equipment lease provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments.

Response

Applicant will purchase the Tesla 3.0 MRI unit from Siemens. A copy of the quote from Siemens is attached to this CON application.

III. (A) Attach a copy of the plot plan of the site on an 8 ½" x 11" sheet of white paper which **must include**:

1. Size of site (**in acres**).

   -- The *Erlanger Medical Center* campus is located on approximately 40.7 acres. A copy of the plot plan is attached to this application.

2. Location of structure on the site.

   -- Please see the location of the MRI unit within the Outpatient Services Center on the drawing attached to this application.

3. Location of the proposed construction.

   -- 975 East 3rd Street
   Chattanooga, TN 37403

4. Names of streets, roads or highways that cross or border the site.

   -- Roads that border the site are *East*

3rd Street, Hampton Street, Blackford Street, and *Central Avenue.*

Please note that the drawings do not need to be drawn to scale. Plot plans are required for <u>all</u> projects.

(B) 1. Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to patients/clients.

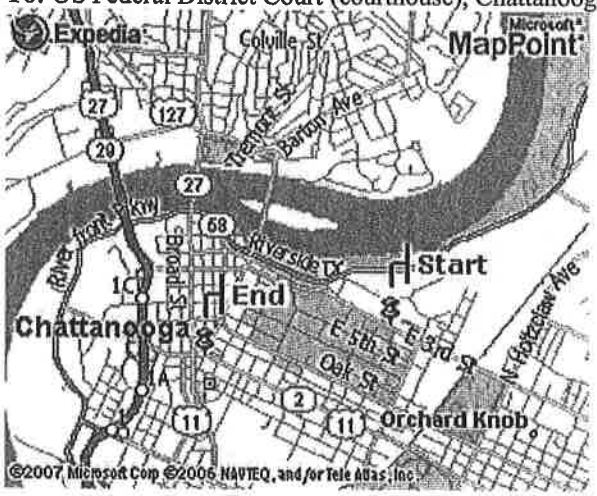
<u>Response</u>

Erlanger Medical Center is easily accessible to patients in Chattanooga and Hamilton County as well as the surrounding service area; from both primary and secondary roads. Additionally, the hospital can be easily accessed via public transportation. Proximal state and interstate highways provide easy access from Tennessee, Georgia, Alabama and North Carolina.

Search Results

From: 975 E 3rd St, Chattanooga, TN 37403-2103

To: US Federal District Court (courthouse), Chattanooga, Tennessee, United States



IV. Attach a floor plan drawing which includes legible labeling of patient care rooms (noting private or semi-private), ancillary areas, equipment areas, etc., on an 8 ½" x 11" sheet of white paper.

NOTE: ***DO NOT SUBMIT BLUEPRINTS***. Simple line drawings should be submitted and need not be drawn to scale.

Response

A copy of the floor plan is attached to this application.

V. For a Home Health Agency or Hospice, identify:

A. Existing service area by County.
B. Proposed service area by County.
C. A parent or primary service provider.
D. Existing branches.
E. Proposed branches.

Response

*** Not applicable. ***

Section C

GENERAL CRITERIA FOR CERTIFICATE OF NEED

Section C: GENERAL CRITERIA FOR CERTIFICATE OF NEED

In accordance with Tennessee Code Annotated § 68-11-1609(b), "no Certificate of Need shall be granted unless the action proposed is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, and will contribute to the orderly development of health care." The three (3) criteria are further defined in Agency Rule 0720-4-.01. Further standards for guidance are provided in the state health plan (Guidelines For Growth), developed pursuant to Tennessee Code Annotated § 68-11-1625.

The following questions are listed according to the three (3) criteria: (1) Need, (2) Economic Feasibility, and (3) Contribution to the Orderly Development of Healthcare. Please respond to each question and provide underlying assumptions, data sources, and methodologies when appropriate. *Please type each question and its response on 8 ½" x 11" white paper*. All exhibits and tables must be attached to the end of the application in correct sequence identifying the questions to which they refer. If a question does not apply to your project, indicate "Not Applicable (NA)".

PRINCIPLES OF TENNESSEE STATE HEALTH PLAN

[From 2011 Update, Pages 5-13]

1. *Healthy Lives*: The purpose of the State Health Plan is to improve the health of Tennesseans.

Response

Erlanger Medical Center is the safety net hospital for southeast Tennessee; though the hospital also serves northwest Georgia, northeast Alabama and southwest North Carolina due to it's location and the scope and range of services provided. It is often the only hospital which low-income people, minorities, and other underserved populations can turn to for treatment. In order to assure the continued viability of its mission as a safety net hospital, *Erlanger Medical Center* continually strives to provide services that are the most medically appropriate,

least intensive, and provided in the most cost-effective health care setting.

As the safety net provider, a large underserved population depends on *Erlanger* to provide needed services. While it is difficult to predict the outcome of health reform initiatives, many Tennesseans previously without health insurance can be expected to elect services which may have otherwise been postponed, adding to the potential demand for MRI services. Growth in the elderly and general population can also be expected to increase demand for MRI services. Surveys of the Chattanooga region have shown that some 70% or more of area physicians and surgeons received their training at *EMC* via its affiliation with the UT College of Medicine. Based on current residency and fellowship programs, it can be expected that this trend will continue with many physicians opting to remain in Tennessee, at *Erlanger*.

The proposed modifications to *EMC's* physical plant and Imaging services are consistent with the *State Health Plan* because they seek to ensure patient access to appropriate facilities for Tennesseans in particular. *Erlanger Medical Center*, is the safety net hospital for underserved residents in southeast Tennessee, including the only Children's Hospital in the within 100 miles of Chattanooga, Tennessee. Providing enhanced access regardless of the patients' ability to pay has been demonstrated to improve the health status of those served.

The Chattanooga region has proven attractive to business development due to the relatively low cost of labor, cost of living and absence of personal income tax. Also, Chattanooga has been recognized as one of the tenth lowest cost markets from a health care insurance perspective since roll out of the Affordable Care Act and the insurance exchange marketplace.

Volkswagen recently announced that it will invest $600 million in its Chattanooga manufacturing plant, adding a second automobile line to its production facilities. In doing so, Volkswagen expects to employ an additional 2,000 employees, with the goal to have the second production line up and running in 2016. *Erlanger* has a primary care site on the Volkswagen campus that serves employees and their families as well as others in the community. Volkswagen also has preferred employer status with *Erlanger*, whereby

employees receive a discount when services are provided. With this expansion, parts, paint and other suppliers involved with the manufacturing are also expected to add employees. Volkswagen has released an additional 300 acres of property to house as many as twenty additional supply companies, increasing site employment to 7,500. The Erlanger East campus is located about five minutes from the Volkswagen campus and is the closest medical facility to the campus.

Audia International, a Pennsylvania based company engaged in the manufacturing of plastics and related products for the automobile, appliance and packaging industries recently announced that it would construct a new 240,000 SF facility in Walker County, Georgia, a short distance from Chattanooga. The company expects to spend $50 million on the new plant and employ 200 staff.

GE Roper, the appliance division for GE located in LaFayette, Georgia indicated they would make an $88 million investment to expand their plant as part of a GE Appliance initiative to bring jobs back to the United States, insourcing instead of outsourcing. GE expects to spend $1 billion on the plan. Locally, 90 new jobs are expected to be added to 1,500 already employed.

The Coca-Cola Bottling Company has also announced plans to invest $62 million in Hamilton County to build a new 305,000 SF state-of-the-art distribution and sales facility that will add 43 new jobs. Coca-Cola Bottling has been in Chattanooga for over 100 years and currently employ nearly 500 staff. The company hopes to complete the new facility in late 2015.

Plastic Omnium Auto Exteriors, LLC, a tier one supplier for Volkswagen, also recently announced that it will make a $65 million investment in Chattanooga, creating nearly 200 new positions at opening, with a target of 300 positions within three years. The company has purchased 27 acres in the industrial park where VW is located.

NV Michel Van De Wielke, one of the largest manufacturers of textile machines in the world indicated it would relocate to Chattanooga from Dalton, GA, to be closer to marketplace competitors and challenge rivals for market share. The plant will employ 35. Chattanooga is the birthplace of tufting with a long tradition in the flooring

industry and many manufacturers are still in the region. The company will also relocate its headquarters from Charlotte, NC, to Chattanooga.

On the health front, area hospitals have also invested in plant improvements and technology. *Memorial Hospital* has just completed a renovation and expansion project of approximately $ 300 million. *Parkridge Health System*, an affiliate of *HCA Healthcare*, acquired a competitor in the region (*Grandview Hospital*) and recently completed relocation/expansion of its psychiatric facility with approximately approximately $ 8 million invested. *Skyridge Medical Center*, in Bradley County is owned by *Community Health System*, consolidated two facilities and invested approximately $ 45 million in upgrades.

Investment in the region is expected to continue across all industries for the foreseeable future. The Chattanooga Area Chamber of Commerce expects to meet its goal of adding more than 15,000 jobs by the end of 2015.

2. *Access To Care*: Every citizen should have reasonable access to care.

Response

Erlanger Medical Center, is designated by *TennCare* as the safety net hospital, for underserved residents in southeast Tennessee. *Erlanger's* TennCare / Medicaid utilization and uncompensated care cost for the last three (3) fiscal years are presented below.

	TennCare / Medicaid Utilization %	Uncompensated Care Cost
FY 2011	25.9 %	$ 82.9 M
FY 2012	24.7 %	$ 85.5 M
FY 2013	24.1 %	$ 85.1 M

Notes
(1) TennCare / Medicaid utilization percentages are based on gross I/P charges derived from applicant's internal records.
(2) Uncompensated care cost estimates were derived from applicant's internal records as reported in the notes to the annual audited financial statements.
(3) Erlanger's fiscal year begins on July 1 of each year and ends on June 30 of the following year. For example, FY 2014 began on July 1, 2013, and ended on

June 30, 2014.

Under the federal Medicare program, an urban hospital with more than 100 beds needs to serve only 15% of low-income patients in order to qualify as a "disproportionate share hospital". *Erlanger* clearly shoulders significantly more than its proportionate share of the care rendered to this patient population. The State Health Plan favors initiatives, like the project proposed herein, which help to foster access to the underserved.

Erlanger Medical Center has the only Level I trauma center, the only life-flight helicopter service, and the only children's hospital in the region. *Erlanger* is also the only provider in its service area of Level III neonatal care and perinatal services. *Erlanger Health System* is committed to maintaining its mission of providing healthcare services to all citizen's regardless of ability to pay. Such services include inpatient care, obstetrics, surgical services and emergency care.

Erlanger Health System also operates several other hospitals in southeast Tennessee as well as a network of physician offices and *Federally Qualified Health Centers* (hereinafter "FQHC") with three (3) locations, so that patients may easily access needed services while also facilitating easy access to the broader healthcare delivery system.

3. *Economic Efficiencies*: The State's health care resources should be developed to address the needs of Tennesseans while encouraging competitive markets, economic efficiencies, and the continued development of the state's health care system.

Response

Historically, *EMC* has been very cost efficient within the context of the overall healthcare delivery system. The inpatient net revenue per admission for local competitors in Chattanooga, Tennessee, is as follows.

Hospital	Avg. Net Revenue Per I/P Admission
Erlanger Medical Center	$ 10,579
Memorial Hospital	$ 10,968
Parkridge Medical Center	$ 15,503

Notes
(1) Information derived from Tennessee Joint Annual Reports for CY 2013.

To evidence this, with the initiation of the *Health Care Exchanges* on January 1, 2014; *Blue Network E* enrolled over 10,000 uninsured and *Erlanger* is the only provider in this network. Further, an additional 7,000 people were enrolled in *Blue Network S* and *Erlanger* is one of only two providers in this network as well.

While offering more complex services and capabilities, *Erlanger* has net revenue per inpatient admission lower than other large area hospitals. *Erlanger Medical Center* is economically efficient, while incurring higher costs by offering more complex services including the only Level I trauma center, the only life-flight helicopter service, the only children's hospital, and the only Level III neonatal care in southeast Tennessee.

4. ***Quality Of Care*: Every citizen should have confidence that the quality of health care is continually monitored and standards are adhered to by health care providers.**

Response

Erlanger Medical Center , which is accredited by the Joint Commission, participates in periodic submission of quality related data to the *Centers For Medicare & Medicaid Services* through its *Hospital Compare* program. Further, *EMC* has an internal program of *Medical Quality Improvement Committees* which continually monitor healthcare services to assure patients of the quality of care provided.

5. ***Health Care Workforce*: The state should support the development, recruitment, and retention of a sufficient and quality health care workforce.**

Response

Erlanger Health System, as southeast Tennessee's only academic medical center, has established strong long term relationships with the region's colleges, universities and clinical programs. Erlanger provides clinical sites for

internships and rotation programs in nursing, radiology, respiratory care and pharmacy, to name a few. A number of regional universities offer Bachelor degree programs in nursing and physical therapy. Locally, two year degrees are available in many clinical allied health areas with additional programs offering advanced technical training in Radiological Imaging such as Nuclear Medicine and Diagnostic Ultrasonography.

The *University of Tennessee - College of Medicine* is co-located at Erlanger and includes training of senior medical students on clinical rotation as well as graduate medical education for training of residents and advanced fellowships in various medical specialties, including surgical specialties, as outlined below.

Residency Programs

- Emergency Medicine
- Family Medicine
- Internal Medicine
- Obstetrics & Gynecology
- Orthopedic Surgery
- Pediatrics
- Plastic Surgery
- Surgery
- Urology (beginning 2015)
- Transitional Year

Fellowship Programs

- Geriatrics
- Hospice & Palliative Care
- Orthopedic Surgery - Traumatology
- Surgical Critical Care
- Vascular Surgery
- Colon & Rectal Surgery
- Emergency Medicine
- Minimally Invasive Gynecologic Surgery
- Neuro-Interventional Surgery
- Ultrasound
- Cardiology (under development)
- Gastroenterology (under development)

Erlanger Health System participates with numerous schools that provide advanced training in the areas of nursing and allied health.

[End Of Responses To Principles Of Tennessee State Health Plan - 2011 Update, pages 5 - 13]

CRITERIA FOR MAGNETIC RESONANCE IMAGING SERVICES

[From Revised And Updated Standards & Criteria For MRI Services, 2011]

1. Utilization Standards For Non-Specialty MRI Units

a. An applicant proposing a new non-Specialty MRI service should project a minimum of at least 2,160 procedures in the first year of service, building to a minimum of 2,520 procedures per year by the second year of service, and building to a minimum of 2,880 procedures per year by the third year of service and for every year thereafter.

Response

Erlanger Medical Center, the region's safety net provider for adults and children, seeks approval for acquisition of a 3.0 Tesla MRI unit. *EMC's* utilization of the 3 MRI units which we currently have was 11,558 procedures in 2013, with an average utilization per unit of 3,853 procedures. This utilization is 34% higher than optimal capacity of 2,880 procedures per unit (i.e.-80% threshold) and 7% higher than full utilization of 3,600 procedures per unit. On July 2, 2014, we implemented a 3rd shift (i.e.-night shift) in our MRI dept. so that we could keep up with the volume. With such high utilization and inpatients being served during night time hours, this needlessly increases the length of stay and cost of care.

We are performing the MRI scans for inpatients on the 3rd shift, which is not optimal for patient care when they should ideally be resting. This actually may increase the cost of inpatient care to an extent because the length of stay may be longer than it would be otherwise. Ultimately, with the addition of a 4th MRI unit, *EMC* expects that its length of stay and cost of inpatient care may be reduced.

In addition to high utilization, we have a need to perform MRI scans with newer technology for patients

that require higher resolution imaging. The newer technology of 3.0 Tesla is becoming the standard of care in imaging such as Orthopedics, Neurology and Pediatrics. Currently, patients which require this type of imaging are being referred outside the *Erlanger* system of care. In 2013 we referred a total of 759 patients that required 3.0 Tesla imaging.

The projected volume for the 3.0 Tesla unit is as follows.

	Year 1	Year 2	Year 3
Orthopedic (3T)	760	825	825
Neurologic (3T)	325	375	400
Pediatric (3T)	325	325	450
Other (3T)	275	275	525
Sub-Total - 3T	1,685	2,050	2,200
Re-Allocation	665	925	950
Total	2,350	2,975	3,150

Notes
(1) The other 3T volume estimate includes Cardiac, Urology, and Women's Health.
(2) While the 3T volume estimates are expected to grow, it could be at a faster rate than the estimates in this table.
(3) The re-allocation volume is that which can be moved from EMC's 3 other MRI units due to over capacity.

b. Providers proposing a new non-Specialty mobile MRI service should project a minimum of at least 360 mobile MRI procedures in the first year of service per day of operation per week, building to an annual minimum of 420 procedures per day of operation per week by the second year of service, and building to a minimum of 480 procedures per day of operation per week by the third year of service and for every year thereafter.

Response

*** Not applicable. ***

c. **An exception to the standard number of procedures may occur as new or improved technology and equipment or new diagnostic applications for MRI units are developed. An applicant must demonstrate that the proposed unit offers a unique and necessary technology for the provision of health care services in the Service Area.**

Response

While *EMC* has demonstrated that the standard number of procedures will be met for this unit, as such, an exception to the standard is not needed. However, we simply wish to point out that 3.0 Tesla imaging is becoming the standard for certain medical specialties such as Orthopedics, Neurology and Pediatrics. Therefore, it essentially becomes an access issue since *Erlanger* is the safety net provider in Southeast Tennessee. As such, uninsured and vulnerable populations may not otherwise have access to this technology.

d. **Mobile MRI units shall not be subject to the need standard in paragraph 1(b) if fewer than than 150 days of service per year are provided at a given location. However, the applicant must demonstrate that existing services in the applicant's Service Area are not adequate and/or that there are special circumstances that require these additional services.**

Response

*** Not applicable. ***

e. **Hybrid MRI Units. The HSDA may evaluate a CON application for an MRI "hybrid" Unit (an MRI unit that is combined/utilized with another medical equipment such as a megavoltage radiation therapy unit or a positron emission tomography unit) based on the primary purposes of the Unit.**

Response

*** Not applicable. ***

2. **Access to MRI Units. All applicants for any proposed new MRI Unit should document that the proposed location is accessible to approximately 75% of the Service Area's population. Applications that include non-Tennessee counties in their proposed Service Areas should provide evidence of the number of existing MRI units that service the non-Tennessee counties and the impact on MRI unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity (if that data are available).**

Response

The service area for the MRI service is most likely to be Southeast Tennessee and Northwest Georgia. However, for purposes of our need evaluation we have not included Northwest Georgia in our analysis because the utilization data for MRI units located in that geography is not available from the Georgia Dept. of Community Health website. The ten (10) counties which represent the service area in Southeast Tennessee are as follows.

Hamilton County, Tennessee
Bradley County, Tennessee
Marion County, Tennessee
Grundy County, Tennessee
Sequatchie County, Tennessee
Bledsoe County, Tennessee
Meigs County, Tennessee
Rhea County, Tennessee
McMinn County, Tennessee
Polk County, Tennessee

The furthest point of the service area (i.e.-the ten (10) counties in Southeast Tennessee) is approximately 67 miles from EMC's main campus, this represents a maximum driving time of approximately 1 hour and 20 minutes for 100 % of the service area population. For 75% of the service area population the driving time would be approximately 40 minutes or less for a distance of approximately 34 miles.

3. **Economic Efficiencies. All applicants for any proposed new MRI unit should document that alternate shared services and lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.**

Response

Applicant has evaluated alternatives and found them not to be optimal in light of our mission to serve those who do not otherwise have access to health services, such as the uninsured, low income and vulnerable populations.

The reasons for acquiring a 3.0 Tesla MRI unit are that the technology is, 1.) becoming the standard of care in some medical specialties such as Orthopedics; 2.) *EMC's* other 3 MRI units are over capacity and unable to keep up with demand for this imaging service, 3.) patient schedules are delayed and length of stay is increased by our high utilization, and 4.) *EMC's* mission to provide the appropriate level of service to uninsured, low income and vulnerable populations will be further enhanced.

The broad healthcare system, and *EMC* specifically, will achieve economic efficiencies from the acquisition of a 3.0 Tesla MRI unit. The efficiencies to be gained are that patients will not have to be referred outside of *EMC's* system of care … in other words, transportation cost to another facility, waiting time to be served and inter-provider communications. Making *EMC* more efficient makes the healthcare system in Southeast Tennessee more efficient.

4. **Need Standard For Non-Specialty MRI Units.**

A need likely exists for one additional non-specialty MRI unit in a Service Area when the combined average utilization of existing MRI service providers is at or above 80% of the total capacity of 3,600 procedures, during the most recent twelve-month period reflected in the provider medical equipment report maintained by the HSDA. The total capacity per MRI unit is based upon the following formula:

Stationary MRI Units: 1.20 procedures per hour x

twelve hours per day x 5 days per week x 50 weeks per year = 3,600 procedures per year

Mobile MRI Units: Twelve (12) procedures per day x days per week in operation x 50 weeks per year. For each day of operation per week, the optimal efficiency is 480 procedures per year, or, 80 percent of the total capacity of 600 procedures per year.

Response

Erlanger Medical Center, the region's safety net provider for adults and children, seeks approval for acquisition of a 3.0 Tesla MRI unit. *EMC's* utilization of the 3 MRI units which we currently have was 11,558 procedures in 2013, with an average utilization per unit of 3,853 procedures. This utilization is 34% higher than optimal capacity of 2,880 procedures per unit (i.e.-80% threshold) and 7% higher than full utilization of 3,600 procedures per unit. On July 2, 2014, we implemented a 3rd shift (i.e.-night shift) in our MRI dept. so that we could keep up with the volume. With such high utilization and inpatients being served during night time hours, this needlessly increases the length of stay and cost of care.

We are performing the MRI scans for inpatients on the 3rd shift, which is not optimal for patient care when they should ideally be resting. This actually may increase the cost of inpatient care to an extent because the length of stay may be longer than it would be otherwise. Ultimately, with the addition of a 4th MRI unit, *EMC* expects that its length of stay and cost of inpatient care may be reduced.

In addition to high utilization, we have a need to perform MRI scans with newer technology for patients that require higher resolution imaging. The newer technology of 3.0 Tesla is becoming the standard of care in imaging such as Orthopedics, Neurology and Pediatrics. Currently, patients which require this type of imaging are being referred outside the *Erlanger* system of care. In 2013 we referred a total of 759 patients that required 3.0 Tesla imaging.

In 2013, for the 30.2 MRI units in Southeast Tennessee, utilization is as follows.

EHS – Analysis Of MRI Utilization In Southeast Tennessee

County	Type	Facility Name	Tesla Strength	No. Of MRI Units	Total Proc's	Avg. Proc's Per Unit
Bradley	HOSP	Skyridge Medical Center	1.5	1.0	2,302	2,302
Bradley	HOSP	Skyridge Medical Center - Westside	1.5	2.0	1,818	909
Hamilton	ODC	Chattanooga Imaging Downtown	1.5	2.0	1,540	770
Hamilton	RPO	Chattanooga Imaging East	1.5	1.0	2,822	2,822
Hamilton	RPO	Chattanooga Imaging Hixson	1.5	1.0	2,386	2,386
Hamilton	ODC	Chatt. O/P Center	3.0 (2)	2.0	7,292	3,646
Hamilton	H-Imaging	Erlanger East Imaging	1.5	1.0	568	568
Hamilton	HOSP	Erlanger Medical Center	1.5	3.0	11,558	3,853
Hamilton	HOSP	Memorial Hixson Hospital	1.5	2.0	2,488	1,244
Hamilton	HOSP	Memorial Hospital	3.0 (2)	3.0	4,356	1,452
Hamilton	H-Imaging	Memorial Ooltewah Imaging Center	3.0	1.0	1,049	1,049
Hamilton	HOSP	Parkridge East Hospital	1.5	1.0	1,024	1,024
Hamilton	HOSP	Parkridge Medical Center	1.5	1.0	2,054	2,054
Hamilton	RPO	Tennessee Imaging and Vein Center	1.5	1.0	3,165	3,165
Marion	HOSP	Parkridge West Hospital	1.5	1.0	884	884
McMinn	HOSP	Starr Regional Medical Center	1.5	1.0	2,437	2,437
McMinn	HOSP	Starr Regional Medical Center - Etowah	1.5	1.0	479	479
Polk	HOSP	Copper Basin Medical Center	1.5	0.2	250	250
Rhea	HOSP	Rhea Medical Center	1.5	1.0	1,481	1,481
		Sub - Total		26.2	49,953	1,907
Bradley	PO	Cleveland Imaging	1.5	1.0	3,509	3,509
Hamilton	PO	Chattanooga Bone & Joint Surgeons, PC	1.5	1.0	841	841
Hamilton	PO	Chattanooga Orthopaedic Group PC	1.5	1.0	5,340	5,340
Hamilton	PO	Neurosurgical Group of Chattanooga, P.C.	1.5	1.0	1,198	1,198
		Sub - Total		4.0	10,888	2,722
		Total		30.2	60,841	2,015

(1) – MRI utilization data obtained from the Tennessee Health Services Agency website. Utilization data is for 2013.

(2) – Please note that each of these providers has one MRI unit which is 3.0 Tesla strength.

While some of the MRI units in the regional service area are below the threshold of 2,880 procedures per unit, as the safety net provider in Southeast Tennessee, *EMC* has a significant need to provide the 3.0 Tesla imaging technology to the low income, uninsured and vulnerable populations which we serve. Without *Erlanger* having this newer 3.0 Tesla technology these patient categories would likely not have access while it is becoming the standard of care for some medical specialties.

5. <u>Need Standards For Specialty MRI Units</u>.

a. Dedicated fixed or mobile breast MRI unit.

b. Dedicated fixed or mobile Extremity MRI Unit.

c. Dedicated fixed or mobile Multi-position MRI Unit.

Response

** Not Applicable. **

6. Separate Inventories for Specialty MRI Units and non-Specialty MRI Units.

If data availability permits, Breast, Extremity, and Multi-position MRI Units shall not be counted in the inventory of non-Specialty fixed or mobile MRI Units, and an inventory for each category of Specialty MRI Unit shall be counted and maintained separately. None of the specialty MRI Units may be replaced with non-Specialty MRI fixed or mobile MRI Units and a Certificate of Need granted for any of these Specialty MRI Units shall have included on its face a statement to that effect. A non-Specialty fixed or mobile MRI Unit for which a CON is granted for Specialty MRI Unit purpose use-only shall be counted in the specific Specialty MRI Unit inventory and shall also have stated on the face of its Certificate of Need that it may not be used for non-Specialty MRI purposes.

Response

** Not Applicable. **

7. Patient Safety & Quality Of Care.

a. The United States Food & Drug Administration must certify the proposed MRI Unit for clinical use.

Response

A copy of the letter from the FDA approving the Siemens unit for commercial use is attached to this CON application.

b. The applicant should demonstrate that the proposed MRI procedures will be offered in a physical environment that conforms to applicable

federal standards, manufacturer's specifications, and licensing agencies' requirements.

Response

A copy of Architect's letter is attached to this CON application which documents that the physical environment and all appropriate standards, manufacturer specifications and other regulatory requirements will be met.

c. **The applicant should demonstrate how emergencies within the MRI Unit facility will be managed in conformity with accepted medical practice.**

Response

A copy of EMC's policy pertaining to emergencies in the MRI dept. is attached to this CON application.

d. **The applicant should establish protocols that assure that all MRI Procedures performed are medically necessary and will not unnecessarily duplicate other services.**

Response

A copy of EMC's policy pertaining to medical necessity in the MRI dept. is attached to this CON application.

e. **An applicant proposing to acquire any MRI Unit or institute any MRI service, including Dedicated Breast and Extremity MRI Units, shall demonstrate that it meets or is prepared to meet the staffing recommendations and requirements set forth by the American College of Radiology, including staff education and training programs.**

Response

EMC currently operates 3 MRI units and meets all of the staffing recommendations and requirements set forth by the American College of Radiology, including staff

education and training. The same standards will be applicable to the 3.0 Tesla MRI unit.

f. All applicants shall commit to obtain accreditation from the Joint Commission, the American College of Radiology, or a comparable accreditation authority for the MRI within two years following operation of the proposed MRI Unit.

Response

EMC currently operates 3 MRI units and is accredited by The Joint Commission. The same standards will be applicable to the 3.0 Tesla MRI unit.

g. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.

Response

As the tertiary referral center and safety net provider for Southeast Tennessee, *EMC* maintains transfer agreements with many hospitals in the regional service area. The medical director for the 3.0 Tesla unit, Blaise Baxter, M.D., is an active member of EMC's medical staff.

8. The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

Response

EMC currently operates 3 MRI units and reports utilization data to the HSDA Equipment Registry. The same standards will be applicable to the 3.0 Tesla MRI unit.

9. In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be

evaluated , and principle no. 2 in the State Health Plan, "Every citizen should have reasonable access to health care", the HSDA may decide to give special consideration to an applicant:

a. Who is offering the service in a medically underserved area as designated by the United States Health Resources & Services Administration;

Response

All ten (10) counties in the service area in Southeast Tennessee, have been designated by HRSA as being medically underserved. A copy of the HRSA designation is attached to this CON application.

b. Who is a "safety net hospital" or a "chldren's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program; or

Response

Erlanger is classified by the Bureau of TennCare as a "safety net hospital" and also as a "children's hospital".

Erlanger is an Academic Medical Center affiliated with the University of Tennessee - College of Medicine. Erlanger is the only tertiary service provider within 100 miles of Chattanooga, Tennessee. *Erlanger* qualifies under this criterion as a "safety net hospital" because we provide service to all people regardless of their ability to pay. Further, we have the only "children's hospital" within 100 miles of Chattanooga, Tennessee.

c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program; or

Response

Erlanger currently contracts with several TennCare MCO's, as follows.

-- BlueCare
-- TennCare Select
-- United Healthcare Community Plan
-- AmeriGroup Community Care

d. Who is proposing to use the MRI Unit for patients that typically require longer preparation and scanning times (e.g.-pediatric, special needs, sedated, and contrast agent use patients). The applicant shall provide in its application information supporting the additional time required per scan and the impact on the need standard.

Response

Erlanger is classified by the Bureau of TennCare as a "safety net hospital" and also as a "children's hospital". *EMC's* experience is that it takes approximately 30 to 45 minutes longer in preparation time for children and patients that are sedated. This contributes to EMC's over capacity, however, we must serve these populations regardless of the patient's ability to pay. The suggested impact on the need standard may be to reduce the full utilization standard to something less than 3,600 when children are served.

[End Of Responses To Revised & Updated Standards & Criteria For MRI Services, 2011]

GENERAL QUESTIONS CONCERNING NEED, ECONOMIC FEASIBILITY & CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE

(I.) *NEED*

1. Describe the relationship of this proposal toward the implementation of the State Health Plan, Teneessee's Health: Guidelines For Growth.

(a) Please provide a response to each criterion and

standard in Certificate Of Need Categories that are applicable to the proposed project. Do not provide responses to General Criteria and Standards (pages 6-9) here.

Response

This project is consistent with the *Principles Of The Tennessee State Health Plan* as stated in the 2011 update ("Principles"). *Applicant* has addressed each of the Principles.

(b) Applications that include a Change of Site for a health care institution, provide a response to General Criterion and Standards (4)(a-c).

Response

** Not applicable. **

2. Describe the relationship of this proposal to the applicant facility's long range development plans, if any.

Response

Erlanger Health System currently holds a CON for expansion of the *Erlanger East* campus (No. CN0405-047AE); a CON to modernize and upgrade the surgical facilities at *Erlanger's* main campus (No. CN1207-034A); and a CON for a new PET/CT unit at *Erlanger's* main campus (No. CN1307-027A).

The goal for *Erlanger Health System* is to provide a comprehensive system of care comprised of unduplicated services while also serving those who are currently under served and/or those who do not have the ability to pay for their services. The 3.0 Tesla MRI project is part of this long term plan.

3. Identify the proposed service area and justify the reasonableness of that proposed area. Submit a county level map including the State of Tennessee clearly marked to reflect the service area. Please submit

maps on 8 ½" x 11" sheets of white paper marked only with ink detectable by a standard photocopier (i.e-no highlighters, pencils, etc.).

Response

The service area for the 3.0 Tesla MRI unit is as follows,

Primary Service Area

Hamilton County, Tennessee

Secondary Service Area

Bradley County, Tennessee
Marion County, Tennessee
Grundy County, Tennessee
Sequatchie County, Tennessee
Bledsoe County, Tennessee
McMinn County, Tennessee
Rhea County, Tennessee
Meigs County, Tennessee
Polk County, Tennessee

The service area is reasonable considering that *Erlanger* currently serves as the largest primary and tertiary based provider in Southeast Tennessee. *Erlanger Health System* makes available to the outlying communities services that otherwise would not be available. It should be noted that Erlanger attracts patients from a much wider geography including Alabama, Georgia and North Carolina.

The service area is reasonable because 48.8 % of the inpatient volume comes from Hamilton County, Tennessee, and 23.3 % of the inpatient volume comes from the 9 county secondary service area, as illustrated below. The precise origin of patients within the service area is detailed as follows for both *Erlanger Health System* as well as the regional service area.

	EHS – Tesla 3.0 MRI Service Area				
	In-Patient Origin & Market Share – CY 2013				
	Total Erlanger	Total All Other	Total Svc. Area	% EHS Pt. Origin	% Svc. Area Pt. Origin
Hamilton County, TN	13,978	22,980	36,958	48.8%	59.1%
Bradley County, TN	1,873	2,922	4,795	6.5%	7.6%
Marion County, TN	821	1,711	2,532	2.9%	4.0%
Grundy County, TN	263	1,975	2,238	0.9%	3.6%
Sequatchie County, TN	1,043	1,639	2,682	3.6%	4.3%
Bledsoe County, TN	520	631	1,151	1.8%	1.8%
Rhea County, TN	1,148	2,830	3,978	4.0%	6.4%
Meigs County, TN	245	1,257	1,502	0.9%	2.4%
McMinn County, TN	398	4,826	5,224	1.4%	8.4%
Polk County, TN	385	1,107	1,492	1.3%	2.4%
Total - Region	20,674	41,878	62,552	72.1%	100.0%
% Market Share	33.1%				
Outside Service Area	7,994			27.9%	
Total - EHS	28,668			100.0%	

Notes

(1) Facility volume information is derived from the THA Health Information Network market share database for calendar year 2013, which does not include both *Hutcheson Medical Center* and *Skyridge Medical Center*.

A map showing the primary and secondary service areas is attached to this CON application.

4. A. Describe the demographics of the population to be served by this proposal.

Response

The service area of the applicant is defined above. Following is a discussion of certain population trends.

	2014 Est. Pop.	2019 Est. Pop.	2013 Service Area Patient Origin
Hamilton County, TN	345,586	357,660	59.1 %
Bradley County, TN	102,186	106,429	7.6 %
Marion County, TN	28,373	28,562	4.0 %
Grundy County, TN	13,499	13,241	3.6 %
Sequatchie County, TN	14,973	16,104	4.3 %

Bledsoe County, TN	12,998	13,162	1.8 %
Rhea County, TN	32,773	34,049	6.4 %
Meigs County, TN	12,018	12,365	2.4 %
McMinn County, TN	53,187	54,412	8.4 %
Polk County, TN	17,080	17,427	2.4 %
	632,673	653,411	100.0 %

Notes
(1) 2014 and 2019 population figures based on original data from *Claritas* and projected forward by EHS.
(2) 2013 service area patient origin figures were derived from the THA Health Information Network database.

The proposed 3.0 Tesla MRI unit fills an essential gap in diagnostic capability in a number of service lines at *EMC* including Orthopedics, Neurology and Pediatrics because it is becoming the standard of care for these medical specialties. In these services, *EMC* already provides clinical leadership that is recognized in the region and beyond. For example, in neurosciences, the stroke program at *EMC* is recognized as one of the leading programs of its kind in the nation. Volume of patients served places it at the top of the list nationally. Further, *EMC* recently implemented an Epilepsy monitoring unit which will utilize the Tesla 3.0 MRI unit.

The elderly and women are prime candidates for service within the Neuroscience service line. It is estimated that the population age 65 and over in the service area will increase from 117,435 in 2014 to 137,384 in 2019. This is an increase of 17.0%. Thus, the project envisioned by the instant application is intended to be of direct benefit to the senior population.

Women of child bearing age (i.e.-age 15-44) will comprise 37.6 % of the population. Further, 18.8 % of the population will be minority (i.e.-Black, Hispanic, Asian, etc.). *Erlanger* is committed to serving the population within the service area, as well as minorities and other underserved populations. For this reason, *Erlanger* will continue to offer services which may not otherwise be available.

Growth in the service area could exceed forecasts given the attractiveness of southeast Tennessee to large employers such as VW, Amazon and Wacker Chemical, which have already located in the area.

B. The special needs of the service area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the business plans of the facility will take into consideration the special needs of the service area population.

Response

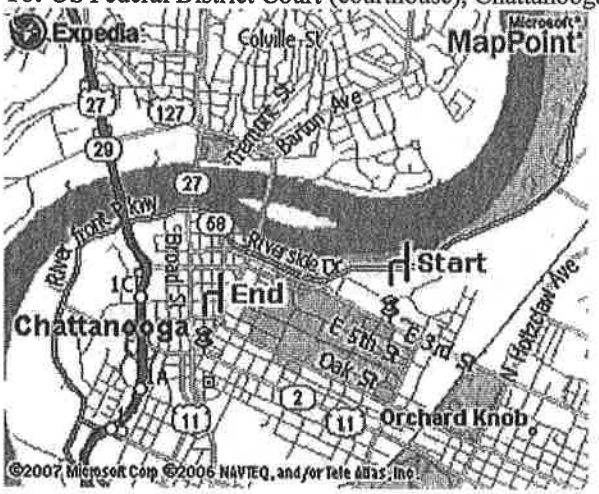
Erlanger Medical Center is the safety net hospital for southeast Tennessee, and is often the only hospital which low-income people, minorities, and other underserved populations can turn to for treatment. In order to assure the continued viability of its mission as a safety net hospital, *Erlanger Health System* continually strives to provide services that are medically appropriate, least intensive (restrictive), and provided in the most cost-effective health care setting.

Erlanger Medical Center is accessible to patients in Chattanooga and Hamilton County from both primary and secondary roads. Additionally, the hospital can be easily accessed via public transportation. Further, proximal state and interstate highways provide easy access from Tennessee, Georgia and Alabama.

Search Results

From: 975 E 3rd St, Chattanooga, TN 37403-2103

To: US Federal District Court (courthouse), Chattanooga, Tennessee, United States



Erlanger has also been responsive to the needs of new businesses like VW, Amazon and Wacker Chemical which

have generated thousands of new jobs in the area. The proposed project will help ensure that the service area population has access to services and facilities consistent with their needs and evolving industry standards.

It is estimated that the population age 65 and over in the service area will increase from 117,435 in 2014 to 137,384 in 2019. This is an increase of 17.0%. Thus, the project envisioned by the instant application is intended to be of direct benefit to the senior population.

Women of child bearing age (i.e.-age 15-44) will comprise 37.6 % of the population. Further, 18.8 % of the population will be minority (i.e.-Black, Hispanic, Asian, etc.). *Erlanger* is committed to serving the population within the service area, as well as minorities and other under served populations. For this reason, *Erlanger* will continue to offer services which may not otherwise be available.

5. Describe the existing or certified services, including approved but unimplemented CON's, of similar institutions in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. Be certain to list each institution and its utlilization and/or occupancy individually. Inpatient bed projects must include the following data: admissions or discharges, patient days, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions, etc.

Response

Parkridge Medical Center has filed a CON application for a Tesla 3.0 MRI unit (No. CN1408-035), however, this application has not yet been approved.

Utilization data for the three (3) general acute care hospitals in Chattanooga, Tennessee, is presented below.

Primary Acute Cate Hospitals -- Chattanooga, Tennessee General Utilization Trends	2011			2012			2013		
	Erlanger Med Ctr	Memorial Hospital	Parkridge Med Ctr	Erlanger Med Ctr	Memorial Hospital	Parkridge Med Ctr	Erlanger Med Ctr	Memorial Hospital	Parkridge Med Ctr
General Acute Care - Admissions	26,343	20,963	7,679	27,238	21,395	8,270	27,579	20,580	8,145
Inpatient Pt. Days - Acute Care	131,630	99,911	39,539	133,260	99,485	40,134	130,947	95,924	39,074
General Acute Care - ALOS	5.00	4.77	5.15	4.89	4.65	4.85	4.75	4.66	4.80
ED Visits	89,808	47,946	30,990	91,254	48,322	35,657	92,413	46,213	33,926
Total Surgical Patients	31,266	19,988	9,918	31,492	19,808	10,684	35,490	19,205	13,264
OB Deliveries	2,639	0	0	2,679	0	0	2,692	0	0

NOTES
(1) This information is derived from *Tennessee Joint Annual Reports*.

6. Provide applicable utilization and/or occupancy statistics for your institution for each of the past three (3) years and the projected annual utilization for each of the two (2) years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology must include detailed calculations or documentation from referral sources, and identification of all assumptions.

Response

Utilization data for *Erlanger Medical Center* is presented below.

	2011	2012	2013	Projected Utilization 2014	2015	2016	2017	2018
General Acute Care - Admissions	26,343	27,238	27,579	27,788	27,997	28,206	28,416	28,625
Inpatient Pt. Days - Acute Care	131,630	133,260	130,947	130,556	131,538	132,520	133,503	134,485
General Acute Care - ALOS	5.00	4.89	4.75	4.70	4.70	4.70	4.70	4.70
ED Visits	89,808	91,254	92,413	92,300	92,995	93,689	94,383	95,078
Total Surgical Patients	31,266	31,492	35,490	35,759	36,028	36,297	36,566	36,835
OB Deliveries	2,639	2,679	2,692	2,712	2,732	2,753	2,773	2,794

NOTES
(1) This information is derived from *Tennessee Joint Annual Report*, for 2011, 2012 and 2013.
(2) The *Joint Annual Report* information for *Erlanger Medical Center* includes pediatric utilization.

The projected utilization is based upon a use rate average calculation for the three (3) year period of 2010, 2011 and 2012. Expected growth could exceed this forecast based on hospital referral patterns, health reform initiatives and advances in clinical care.

(II.) *ECONOMIC FEASIBILITY*

1. **Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.**

   - **All projects should have a project cost of at least $ 3,000 on Line F (minimum CON filing fee). CON filing fee should be calculated from Line D. (See application instructions for filing fee.)**

   - **The cost of any lease should be based on fair market value or the total amount of lease payments over the initial term of the lease, whichever is greater.**

   - **The cost of fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.**

   - **For projects that include new construction, modification, and/or renovation; documentation must be provided from a contractor and/or architect that support the estimated construction costs.**

Response

The Project Cost Chart has been completed on the next page.

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PROJECT COST CHART

A. Construction And Equipment Acquired By Purchase.

1.	Architecural And Engineering Fees	93,908
2.	Legal, Administrative, Consultant Fees (Excluding CON Filing Fees)	0
3.	Acquisition Of Site	0
4.	Preparation Of Site	0
5.	Construction Costs	1,030,203
6.	Contingency Fund	240,317
7.	Fixed Equipment (Not Included In Construction Contract)	3,013,702
8.	Moveable Equipment (List all equipment over $ 50,000)	45,604
9.	Other (Specify) Technical, Signage, Environmental, etc.	163,656

B. Acquisition By Gift, Donation, Or Lease.

1.	Facility (inclusive of building and land)	0
2.	Building Only	0
3.	Land Only	0
4.	Equipment (Specify) _____	0
5.	Other (Specify) _____	0

C. Financing Costs And Fees.

1.	Interim Financing	0
2.	Underwriting Costs	0
3.	Reserve For One Year's Debt Service	0
4.	Other (Specify) _____	0

D.	Estimated Project Cost	(A + B + C)	4,587,390
E.	CON Filing Fee		10,321
F.	Total Estimated Project Cost	(D + E)	4,597,711

2. Identify the funding sources for this project.

a. Please check the applicable item(s) below and briefly summarize how the project will be financed. (Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment C, Economic Feasibility-2.)

___ A. Commercial loan -- Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions.

___ B. Tax - Exempt Bonds -- Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance.

___ C. General obligation bonds -- Copy of resolution from issuing authority or minutes from the appropriate meeting.

___ D. Grants -- Notification of intent form for grant application or notice of grant award.

___ E. Cash Reserves - Appropriate documentation from Chief Financial Officer.

_X_ F. Other - Identify and document funding from all other sources.

Response

The project will be funded through cash from operations. The CFO letter is attached.

1. Discuss and document the reasonableness of the proposed project costs. If applicable, compare the cost per square foot of construction to similar projects recently approved by the Health Services And Development Agency.

Response

Applicant believes the cost of the project is reasonable. An analysis of the cost per square foot with similar projects in Tennessee supports this conclusion.

Facility	CON Number	Cost Per Square Foot
Parkridge Medical Center	CN1408-035	$ 433.53
Valley Open MRI	CN1407-028	$ 222.00

The cost estimate for the *EMC* Tesla 3.0 MRI unit has been certified by William H. Wilkerson, Tennessee Architectural License No. 8710, via letter dated Sept. 4, 2014 (copy attached). The cost per SF is $ 358.33.

4. Complete Historical and Projected Data Charts on the following two pages - *Do not modify the Charts provided or submit Chart substitutions* ! Historical Data Chart represents revenue and expense information for the last *three* (3) years for which complete information is available for the institution. Projected Data Chart requests information for the two (2) years following the completion of this proposal. Projected Data Chart should reflect revenue and expense projections for the *Proposal Only* (i.e.-if the application is for additional beds, include anticipated revenue from the proposed beds only, not from all beds in the facility).

Response

The financial audit for the current fiscal year ended June 30, 2014, is currently underway and is expected to show a positive financial result.

The *Other Expenses* category of the *Projected Data Chart* is detailed in a separate schedule directly following the *Projected Data Chart*.

HISTORICAL DATA CHART

Give information for the last *three (3)* years for which complete data are available for the facility or agency. The fiscal year begins in July (Month).

		Year – 2011	Year - 2012	Year – 2013
A.	Utilization Data (Specify Unit Of Measure) I/P Admits	27,931	28,987	29,066
B.	Revenue From Services To Patients			
	1. Inpatient Services	960,901,050	971,094,413	951,407,744
	2. Outpatient Services	540,147,249	600,067,032	638,832,332
	3. Emergency Services	112,357,719	112,850,427	122,125,184
	4. Other Operating Revenue (Specify) Home Health, POB Rent, etc.	34,980,484	37,187,604	33,499,831
	Gross Operating Revenue	1,648,386,502	1,721,199,476	1,745,865,091
C.	Deductions From Operating Revenue			
	1. Contractual Adjustments	929,699,718	980,425,997	997,920,752
	2. Provision For Charity Care	79,608,206	78,323,761	102,150,881
	3. Provision For Bad Debt	85,619,511	99,422,380	74,808,470
	Total Deductions	1,094,927,435	1,158,172,138	1,174,880,103
	NET OPERATING REVENUE	553,459,067	563,027,338	570,984,988
D.	Operating Expenses			
	1. Salaries And Wages	271,178,059	277,849,780	275,109,764
	2. Physician's Salaries And Wages	30,609,413	35,148,510	36,117,461
	3. Supplies	76,612,829	79,185,467	78,028,042
	4. Taxes	597,507	553,433	536,994
	5. Depreciation	25,799,614	26,569,378	27,373,556
	6. Rent	2,816,717	3,632,579	5,341,116
	7. Interest - Other Than Capital	0	0	0
	8. Other Expenses (Specify) Insurance, Purch. Svcs., etc.	140,157,885	149,478,971	156,440,656
	Total Operating Expenses	547,772,024	572,418,118	578,947,589
E.	Other Revenue (Expenses) - Net (Specify)			
	NET OPERATING INCOME (LOSS)	5,687,043	(9,390,780)	(7,962,601)
F.	Capital Expenditures			
	1. Retirement Of Principal	7,824,776	7,396,156	7,900,842
	2. Interest	9,876,593	9,652,060	8,971,728
	Total Capital Expenditures	17,701,369	17,048,216	16,872,570
	NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	(12,014,326)	(26,438,996)	(24,835,171)

HISTORICAL DATA CHART – Other Expenses

		2013	2012	2011
	Purchased Services	111,584,374	102,702,749	91,070,211
	Utilities	9,736,115	9,757,309	9,557,545
	Drugs	32,921,513	32,551,755	36,189,380
	Insurance and Taxes	2,198,654	4,467,158	3,340,749
	Total - Other Expenses	156,440,656	149,478,971	140,157,885
Purchased Services		**111,584,374**	**102,702,749**	**91,070,211**
620142	Restricted Fund Expense	76,633	237,126	148,628
620252	Physician Fees	20,510,257	20,113,740	20,272,910
620302	Consulting	8,018,102	1,668,100	1,271,450
620322	Legal Fees	2,393,527	1,869,626	785,035
620332	Audit Fees	194,406	211,360	196,298
620352	Architect & Eng Fees	182,585	123,174	37,787
620492	Time & Mat Contract	3,023,421	3,659,430	3,533,283
620502	Dietary	621,402	516,296	477,784
620522	Unscheduled Maint	4,687,799	3,374,335	3,134,217
620010	Plz Surgery Minority Interest		-149,843	
620523	CUC Delivery/Vehicle Expense	32,607	31,248	82,607
620532	Advertising	2,555,479	2,198,138	2,406,864
620542	Purchased Services	29,055,253	31,214,122	25,722,656
620562	Purchased Maint	3,220,291	3,908,269	3,791,437
620572	Freight Charges	314,512	275,027	217,953
620573	CUC Penalties	1,425	2,561	951
620574	CUC Late Fees	4,971	2,000	2,993
620582	Collection Fees	738,913	162,324	468,258
620602	Lab Outside Fees	3,205,690	3,709,926	3,456,266
620622	Computer Services	4,970,519	4,501,692	4,147,745
620652	Rent-Office			439,367
620653	CUC Rent - Parking Spaces			1,200
620672	Rent/Lease Copier			19,455
620682	Micro Maint	74,128	95,567	129,433
620692	Equipment Rental	3,033,690	3,246,154	2,608,757
620792	Contracted Services	18,663,071	15,797,297	11,681,704
620892	Membership & Dues	1,167,871	1,398,184	1,055,383
620902	Special Classes	27,957	10,365	41,096
620912	Licenses & Fees	1,281,524	1,175,538	1,537,526
620922	Development Costs	176,338	45,716	-6,829
620932	Professional Education	1,045,961	1,059,982	1,073,367
620933	CUC Meals & Entertainment	11,491	9,910	12,154
620952	Local Travel	323,282	315,197	292,080
620953	CUC Field Trip Expense	12,657	9,764	8,936
620982	Business Courtesy	44,274	34,226	16,407
621182	Asbestos Expense	128,761	31,350	55,132
621202	Recruiting	670,202	634,222	776,115
621272	Resident Education	295,055	311,609	275,367
621532	Public Relations	487,507	474,619	545,685
621972	Patient parking	217,813	186,556	138,687
622002	Med/Prof Housing Expense	115,000	237,841	214,070
Utilities		**9,736,115**	**9,757,309**	**9,557,545**
640702	Billed Utilities	-461,256	-412,326	-593,578
640712	Electricity	5,927,593	6,111,788	5,984,394
640722	Gas	1,559,592	1,552,861	1,889,085
640732	Water	1,136,971	1,050,175	983,945
640742	Oil	6,450	10,816	9,152
640752	Storm Water Fees	39,551	53,048	1,284,547
640882	Telephone	1,527,215	1,390,947	
				36,189,380
Drugs		**32,921,513**	**32,551,755**	36,189,380
630403	Drugs	32,921,513	32,551,755	
				3,340,749
Insurance and Taxes		**2,198,654**	**4,467,158**	1,916,085
670847	Self Insurance Expense	952,825	1,686,257	1,073,443
670857	Insurance	1,207,188	2,695,711	332,251
680878	CUC Taxes - Sales	629	11,966	16,701
680880	Gross Receipts Tax	38,012	73,224	2,269

SUPPLEMENTAL #2
September 30, 2014
4:05 pm

SEP 30 2014 4:05

PROJECTED DATA CHART

Give information for the last *three (3)* years for which complete data are available for the facility or agency. The fiscal year begins in ___July____ (Month).

		Year 1	Year 2
A.	Utilization Data	2,350	2,975
	(Specify Unit Of Measure) MRI Procedures		
B.	Revenue From Services To Patients		
	1. Inpatient Services		
	2. Outpatient Services	8,492,065	11,227,918
	3. Emergency Services		
	4. Other Operating Revenue		
	(Specify)		
	Gross Operating Revenue	8,492,065	11,227,918
C.	Deductions From Operating Revenue		
	1. Contractual Adjustments	6,569,444	8,758,777
	2. Provision For Charity Care	115,542	152,766
	3. Provision For Bad Debt	251,282	332,236
	Total Deductions	6,936,268	9,243,779
	NET OPERATING REVENUE	1,555,797	1,984,139
D.	Operating Expenses		
	1. Salaries And Wages	240,435	250,774
	2. Physician's Salaries And Wages		
	3. Supplies	19,580	25,586
	4. Taxes		
	5. Depreciation	431,301	431,301
	6. Rent		
	7. Interest - Other Than Capital		
	8. Management Fees:		
	a. Fees To Affiliates		
	b. Fees To Non-Affiliates		
	9. Other Expenses	365,590	413,329
	(Specify) Contrast Agent, Svc. Contract, etc.		
	Total Operating Expenses	1,056,906	1,120,990
E.	Other Revenue (Expenses) – Net		
	(Specify)		
	NET OPERATING INCOME (LOSS)	498,891	863,149
F.	Capital Expenditures		
	1. Retirement Of Principal		
	2. Interest		
	Total Capital Expenditures		
	NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	498,891	863,149

	PROJECTED DATA CHART - OTHER EXPENSES				
			Year 1		Year 2
Other Expenses Category					
1.)	MRI Contrast Agent		116,964		153,358
2.)	Injector		3,800		3,939
3.)	Service Agreement		160,225		166,073
4.)	Corporate Overhead Allocation		84,601		89,959
5.)					
6.)					
7.)					
	Total - Other Expenses		365,590		413,329

5. Please identify the project's average gross charge, average deduction from operating revenue, and average net charge.

Response

Following are the average charge amounts per patient.

Average Gross Charge	$ 4,337
Average Deduction From Revenue	
Medicare	$ 4,021
TennCare / Medicaid	$ 3,026
Average Net Revenue	
Medicare	$ 449
TennCare / Medicaid	$ 582

6. A. Please provide the current and proposed charge schedules for the proposal. Discuss any adjustment to current charges of projects that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the proposed project and the impact on existing patient charges.

Response

Please see the list of average patient charges by DRG for *Erlanger Health System* and other acute care providers in Hamilton County, Tennessee, for the calendar year 2013, attached to this CON application. Applicant does revise it's patient charge structure on a periodic basis (i.e.- usually annually) during the budget cycle each fiscal year. However, applicant does not anticipate any changes to existing patient charges specifically as a result of this project.

B. Compare the proposed charges to those of other facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services And Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).

Response

Please see the list of average patient charges by DRG for *Erlanger Health System* and other acute care providers in Hamilton County, Tennessee, for the calendar year 2013, attached to the this CON application.

Per the attached list of average patient charges, following are the average charge per case for each facility for 2013.

Erlanger Medical Center	$ 37,396
Memorial Hospital	$ 40,269
Parkridge Medical Center	$ 61,289
Erlanger East	$ 9,085
Memorial Hospital - Hixson	$ 25,131
Parkridge East Hospital	$ 29,292

7. Discuss how projected utilization rates will be sufficient to maintain cost effectiveness.

Response

Historically, EMC has been very cost efficient within the context of the overall healthcare delivery system. The

inpatient net revenue per admission for local competitors in Chattanooga, Tennessee, is as follows.

Hospital	Avg. Net Revenue Per I/P Admission
Erlanger Medical Center	$ 10,579
Memorial Hospital	$ 10,968
Parkridge Medical Center	$ 15,503

Notes
(1) Information derived from Tennessee Joint Annual Reports for CY 2013.

While offering more complex services and capabilities, Erlanger has net revenue per inpatient admission comparable to other large area hospitals. *Erlanger Medical Center* is economically efficient, while incurring higher costs by offering more complex services including the only Level I trauma center, the only life-flight helicopter service, the only children's hospital, and the only Level III neonatal care in southeast Tennessee.

8. Discuss how financial viability will be ensured within two (2) years; and demonstrate the availability of sufficient cash flow until financial viability is achieved.

Response

In addition to high utilization, we have a need to perform MRI scans with newer technology for patients that require higher resolution imaging. The newer technology of 3.0 Tesla is becoming the standard of care in imaging such as Orthopedics, Neurology and Pediatrics. Currently, patients which require this type of imaging are being referred outside the *Erlanger* system of care. In 2013 we referred a total of 759 patients that required 3.0 Tesla imaging.

EMC seeks to acquire the Tesla 3.0 MRI unit in order to stay abreast of changing technology for imaging services. Also, we anticipate that this unit will handle some of the imaging that our other Tesla 1.5 MRI units have been handling. As may be seen from the *Projected Data Chart*, this project will be financially viable with the projected volumes of 2,350 procedures in year 1 and 2,975 procedures in year 2.

9. Discuss the project's participation in state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid, and medically indigent patients will be served by the project. In addition, report the estimated dollar amount of revenue and percentage of total project revenue anticipated from each of TennCare, Medicare, or other state and federal sources for the proposal's first year of operation.

Response

Erlanger Medical Center, as a member facility of *Erlanger Health System*, currently participates in the following Federal / State programs.

Federal	Medicare
State	BlueCare TennCare Select United Healthcare Community Plan *(Children's Medical Services under age 21 & High Risk Maternity Only)* AmeriGroup Community Care

Anticipated revenue (gross charges) from Federal and State sources during year 1 of the project is as follows.

Medicare	$ 2,640,828
TennCare	$ 413,165
	$ 3,053,993

10. Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For new projects, provide financial information for the corporation, partnership, or principal parties involved with the project. Copies must be inserted at the end of the application, in the correct alpha-numeric order and labeled as Attachment C, Economic Feasibility-10.

Response

Copies of the following financial statements for *Erlanger Health System* are attached to this CON application.

Interim Balance Sheet & Income Statement	May 31, 2014
Audited Financial Statements	June 30, 2013

11. Describe all alternatives to this project which were considered and discuss the advantages and disadvantages of each alternative including but not limited to,

A. A discussion regarding the availability of less costly, more effective, and/or more efficient alternative methods of providing the benefits intended by the proposal. If developments of such alternatives is not practicable, the applicant should justify why not; including reasons as to why they were rejected.

Response

The proposed Tesla MRI unit will fill an essential gap in diagnostic capability in a number of service lines at *EMC* including Orthopedics, Neurology and Pediatrics. In these services, *EMC* already provides clinical leadership that is recognized in the region and beyond. For example, in neurosciences, the stroke program at *EMC* is recognized as one of the leading programs of its kind in the nation. The volume of patients served places it at the top of the list nationally. Further, *EMC* recently implemented an Epilepsy monitoring unit which will utilize the Tesla 3.0 MRI unit.

Erlanger seeks to acquire another MRI unit so as to be cost effective. The reasons for acquiring a 3.0 Tesla MRI unit are that the technology is, 1.) becoming the standard of care in some medical specialties such as Orthopedics; 2.) *EMC's* other 3 MRI units are over capacity and unable to keep up with demand for this imaging service, 3.) patient schedules are delayed and length of stay is increased by our high utilization, and 4.) *EMC's* mission to provide the appropriate level of service to low income and vulnerable populations will be further enhanced. The broad

healthcare system, and *EMC* specifically, will achieve economic efficiencies from the acquisition of a Tesla 3.0 MRI unit.

As *the* safety net hospital in Southeast Tennessee, it is vital that *EMC* enhance and update its facilities to provide the best imaging services available for the communities we serve. As an academic medical center affiliated with the University of Tennessee College of Medicine, which is co-located on the *Erlanger* campus, *EMC* seeks to provide appropriate facilities so as to enhance the training and education of medical residents and fellows as well as other health professionals. Updating facilities also means planning for tomorrow with regard to MRI services for the regional service area, ensuring that the needs of the uninsured and/or low income population are being met.

B. The applicant should document that consideration has been given to alternatives to new construction, e.g., modernization or sharing arrangements. It should be documented that superior alternatives have been implemented to the maximum extent practicable.

Response

This project consists of renovation of existing space on the *EMC* campus, no new construction is involved with this project.

Erlanger has postponed acquisition of a Tesla 3.0 MRI unit. The newer technology of 3.0 Tesla is becoming the standard of care in imaging for medical specialties such as Orthopedics, Neurology and Pediatrics. Currently, patients which require this type of imaging are being referred outside the *Erlanger* system of care. In 2013 we referred a total of 759 patients that required 3.0 Tesla imaging. As *the* safety net hospital in Southeast Tennessee, it is vital that *EMC* enhance and update its facilities to provide the best imaging services available for the communities we serve.

As an academic medical center affiliated with the University of Tennessee College of Medicine, which is co-located on the *Erlanger* campus, *EMC* seeks to provide

appropriate facilities so as to enhance the training and education of medical residents and fellows as well as other health professionals. Updating facilities also means planning for tomorrow with regard to MRI services for the regional service area, ensuring that the needs of the uninsured and/or low income population are being met.

(III.) *CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE*

1. **List all health care providers (e.g., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, e.g., transfer agreements, contractual agreements for health services.**

Response

The most significant relationship between this proposal and the existing healthcare system is that it will be part of an existing health system and enhance *Erlanger Health System's* ability to integrate its services within the regional service area as the safety net provider, trauma center and region's only academic medical center.

By providing these services regardless of a patient's ability to pay, the regional healthcare delivery system is positively impacted by the services envisioned in the instant application.

The applicant currently has transfer arrangements with the following hospitals which are owned by *Erlanger Health System*.

-- Erlanger North Hospital
-- T. C. Thompson Children's Hospital
-- Erlanger East Hospital
-- Erlanger Bledsoe Hospital

Further, Erlanger currently has patient transfer agreements in place with more than 90 hospitals and other providers in the four (4) state area. These providers refer patients to Erlanger because of the depth and breadth

of its programs and services. A copy of the list of transfer agreements is attached to this CON application.

2. **Describe the positive and / or negative effects of the proposal on the health care system. Please be sure to discuss any instances of duplication or competition arising from your proposal including a description of the effect the proposal will have on the utilization rates of existing providers in the service area of the project.**

Response

The effects of this proposal will be positive for the healthcare system because it will deliver the most appropriate level of care for those who are in need of service regardless of ability to pay, at a generally lower cost. By providing the Tesla 3.0 MRI service, the regional healthcare delivery system is positively impacted by serving as the "safety net" for those who are otherwise in need of this highly specialized service.

3. **Provide the current and/or anticipated staffing pattern for all employees providing patient care for the project. This can be reported using FTE's for these positions. Additionally, please compare the clinical staff salaries in the proposal to prevailing wage patterns in the service area as published by the *Tennessee Dept. Of Labor & Workforce Development* and/or other documented sources.**

Response

Clinical staffing for the Tesla 3.0 MRI service is anticipated to be 4.0 FTE's. The mid-point on Erlanger's pay scale for these positions will be $ 26.31 and the mid-point average hourly rate for the Chattanooga area is $ $ 29.52.

4. **Discuss the availability of and accessibility to human resources required by the proposal, including adequate professional staff, as per the Dept. Of Health, the Dept. Of Mental Health & Developmental Disabilities, and/or the Division of Mental Retardation Services**

licensing requirements.

Response

The human resources required will be approached with a proactive recruitment action plan. Historically, *Erlanger* has met staffing requirements by utilizing a variety of methods. Thus, our approach to fulfill the staffing plan for the Tesla 3.0 MRI service will consist of a proactive plan of marketing, screening, hiring, and training.

The Human Resources Department at *Erlanger* will work closely with managers in the transition. The specifics will be based on the needs of the organization and aligned with the strategic initiative of the new Tesla 3.0 MRI service. *Erlanger* has actively been involved in the WorkForce Development movement on several different levels within the Chattanooga area and statewide. Current vacancy rates are below state and national averages.

Erlanger Health System participates with numerous schools that provide advanced training in the areas of nursing and allied health. Therefore, *Erlanger* expects no difficulty in recruitment of required staff given it's role as an academic medical center and it's affiliations with colleges and universities offering allied health and related training programs.

5. Verify that the applicant has reviewed and understands all licensing certification as required by the State of Tennessee for medical/clinical staff. These include, without limitation, regulations concerning physician supervision, credentialing, admission privileges, quality assurance policies and programs, utilization review *policies and programs, record keeping, and staff education*.

Response

The Applicant has reviewed and intends to comply with all licensing and certification requirements imposed by applicable statutes and regulations.

6. Discuss your health care institution's participation in the training of students in the areas of medicine,

nursing, social work, etc. (e.g., internships, residencies, etc.).

Response

Erlanger Health System, as the region's only academic medical center, has established strong long term relationships with the region's colleges, universities and clinical programs. *Erlanger* provides clinical sites for internships and rotation programs in nursing, radiology, respiratory, pharmacy and surgery technology, to name a few.

A number of regional universities offer Bachelor degree programs in nursing and physical therapy. *Erlanger* works closely with the University of Tennessee at Chattanooga to assist nurses transitioning from RN to BSN. Erlanger provides a teaching environment for staff as well with various on-the-job training opportunities (ex: CT for Radiologic Technologist, Certification for LPNs). Locally, two year degrees are available in many clinical allied health areas with additional programs offering advanced technical training in Radiological Imaging such as Nuclear Medicine, Diagnostic Ultrasonography, etc. *Erlanger Health System* participates with numerous schools that provide advanced training in the areas of nursing and allied health.

Erlanger has established strong long term relationships with the region's colleges, universities and clinical programs. Erlanger provides clinical sites for internships and rotation programs in nursing, radiology, respiratory care and pharmacy, to name a few. A number of regional universities offer Bachelor degree programs in nursing and physical therapy. Locally, two year degrees are available in many clinical allied health areas with additional programs offering advanced technical training in Radiological Imaging such as Nuclear Medicine and Diagnostic Ultrasonography.

The *University of Tennessee - College of Medicine* is co-located at Erlanger and includes training of senior medical students on clinical rotation as well as graduate medical education for training of residents and advanced fellowships in various medical specialties, including surgical specialties, as outlined below.

Residency Programs

- Emergency Medicine
- Family Medicine
- Internal Medicine
- Obstetrics & Gynecology
- Orthopedic Surgery
- Pediatrics
- Plastic Surgery
- Surgery
- Urology (beginning 2015)
- Transitional Year

Fellowship Programs

- Geriatrics
- Hospice & Palliative Care
- Orthopedic Surgery - Traumatology
- Surgical Critical Care
- Vascular Surgery
- Colon & Rectal Surgery
- Emergency Medicine
- Minimally Invasive Gynecologic Surgery
- Neuro-Interventional Surgery
- Ultrasound
- Cardiology (under development)
- Gastroenterology (under development)

Erlanger Health System participates with numerous schools that provide advanced training in the areas of nursing and allied health.

7. (a) Please verify, as applicable, that the applicant has reviewed and understands the licensure requirements of the Dept. Of Health, the Dept. Of Mental Health & Developmental Disabilities, the Division of Mental Retardation Services, and/or any applicable Medicare requirements.

Response

The Applicant has reviewed and intends to comply with all licensing and certification requirements imposed by applicable statutes and regulations.

(b) Provide the name of the entity from which the applicant has received or will receive licensure, certification, and / or accreditation.

Licensure: State of Tennessee, Dept. of Health

Accreditation: Joint Commission on Accreditation of Healthcare Organizations

If an existing institution, please describe the Current standing with any licensing, certifying, or accrediting agency or commission. Provide a copy of the current license of the facility.

Response

Erlanger Health System continuously strives to comply with applicable regulations and make needed changes where deficiencies may arise to ensure full compliance. A copy of the current license from the Tennessee Dept. of Health is attached to this CON application. Further, a copy of the most recent *Letter Of Accreditation* from *The Joint Commission* is attached to this CON application.

(c) For existing licensed providers, document that all deficiencies (if any) cited in the last licensure certification and inspection have been addressed through an approved plan of correction. Please include a copy of the most recent licensure/certification inspection with an approved plan of correction.

Response

A copy of the most recent licensure/certification inspection report with an approved plan of correction is attached to this CON application.

8. Document and explain any final orders or judgments entered in any state or country by a licensing agency or court against professional licenses held by the applicant or any entities or persons with more than a 5 % ownership interest in the applicant. Such information is to be provided for licenses regardless of whether such license is currently held.

Response

*** Not Applicable. ***

9. Identify and explain any final civil or criminal judgments for fraud or theft against any person or entity with more than a 5 % ownership interest in the project.

Response

*** Not Applicable. ***

10. If the proposal is approved, please discuss whether the applicant will provide the Tennessee Health Services And Development Agency and/or the reviewing agency information concerning the number of patients treated, the number and type of procedures performed, and other data as required.

Response

Applicant will provide the *Health Services And Development Agency* with appropriate information in consideration of this CON application.

PROOF OF PUBLICATION

Attach the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper as proof of publication of the letter of intent.

Attached is a copy of the *Letter Of Intent* which was filed with the *Tennessee Health Services & Development Agency* on September 10, 2014. The original publication affidavit is also attached.

DEVELOPMENT SCHEDULE

Tennessee Code Annotated § 68-11-1609(c) provides that a Certificate of Need is valid for a period not to exceed three (3) years (for hospital projects) or two (2) years (for all other projects) from the date of its issuance and after such time shall expire; provided, that the Agency may, in granting the Certificate of Need, allow longer periods of validity for Certificates of Need for cause shown. Subsequent to granting a Certificate of Need, the Agency may extend a Certificate of Need for a period upon application and good cause shown, accompanied by a non-refundable reasonable filing fee, as prescribed by rule. A Certificate of Need which has been extended shall expire at the end of the extended time period. The decision whether to grant such an extension is within the sole discretion of the Agency, and is not subject to review, reconsideration, or appeal.

1. **Please complete the Project Completion Forecast Chart on the next page. If the project will be completed in multiple phases, please identify the anticipated completion date for each phase.**

   Response

   The Project Completion Forecast Chart has been completed and appears on the following page.

2. **If the response to the preceding question indicates that the applicant does not anticipate completing the project within the period of validity as defined in the preceding paragraph, please state below any request for an extended schedule and document the "good cause" for such an extension.**

   Response

   *** Not Applicable. ***

PROJECT COMPLETION FORECAST CHART

Enter the Agency projected Initial Decision Date, as published in Rule 68-11-1609(c): Dec. 17, 2014

Assuming the CON approval becomes the final Agency action on that date; indicate the number of days from the above agency decision date to each phase of the completion forecast.

PHASE		Days Required	Anticipated Date (MONTH / YEAR)
1.	Architectural and engineering contract signed.	5	Dec, 2014
2.	Construction documents approved by the *Tennessee Dept. Of Health.*	20	Jan, 2015
3.	Construction contract signed.	10	Feb, 2015
4.	Building permit secured.	5	Feb, 2015
5.	Site preparation completed.	15	Feb, 2015
6.	Building construction commenced.	5	Feb, 2015
7.	Construction 40 % complete.	65	Apr, 2015
8.	Construction 80 % complete.	65	Jun, 2015
9.	Construction 100 % complete (approved for occupancy.	35	Aug, 2015
10.	*Issuance of license.	15	Aug, 2015
11.	*Initiation of service.	5	Sep, 2015
12.	Final Architectural Certification Of Payment.	30	Oct, 2015
13.	Final Project Report Form (HF0055).	30	Nov, 2015

(*) For projects that do NOT involve construction or renovation, please complete items 10 and 11 only.

NOTE – If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date.

A F F I D A V I T

STATE OF TENNESSEE

COUNTY OF HAMILTON

Joseph M. Winick, being first duly sworn, says that he / she is the applicant named in this application or his / her / it's lawful agent, that this project will be completed in accordance with the application, that the applicant has read the directions to this application, the Agency Rules, and T.C.A. § 68-11-1601, *et seq*, and that the responses to this application or any other questions deemed appropriate by the Tennessee Health Services & Development Agency are true and complete.

SIGNATURE

SWORN to and subscribed before me this 11th of September (Month), 2014 (Year), a Notary Public in and for the State of Tennessee, County of Hamilton.

SHELIA HALL
STATE OF TENNESSEE NOTARY PUBLIC
HAMILTON COUNTY

Shelia Hall
NOTARY PUBLIC

My commission expires June 9 (Month / Day), 2018.

TABLE OF ATTACHMENTS

** NOTE - The attachments are paginated and the page number begins with "A". The page number appears in the upper right hand corner of the page.

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Enabling Legislation	A-6
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CFO Letter	A-19
List Of Average Patient Charges	A-20
List Of Erlanger Patient Transfer Agreements	A-21
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CV For MRI Service Medical Director	A-36
HRSA Designation Page Showing All Counties In Service Area Designated As A Medically Underserved Area ("MUA")	A-51
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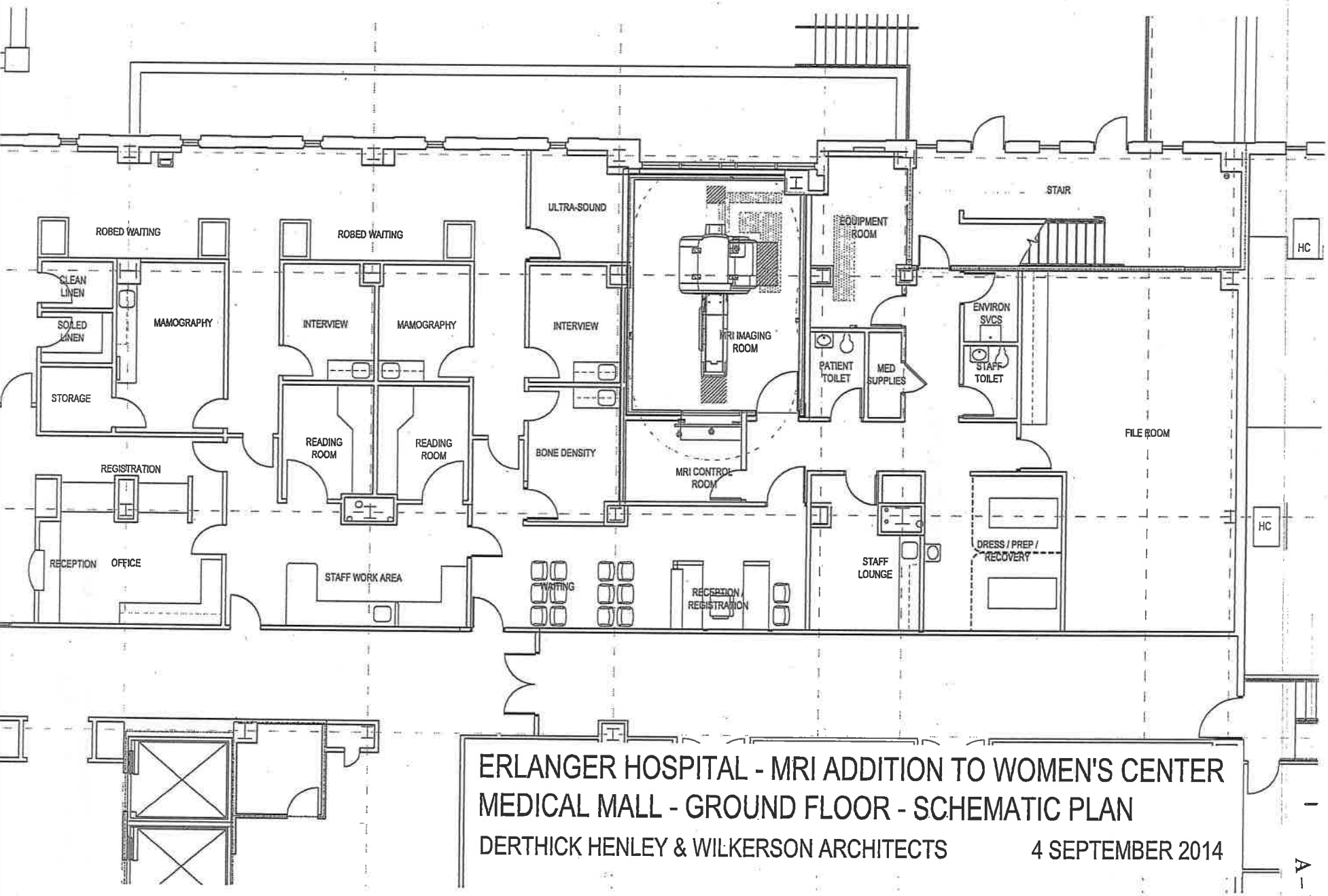
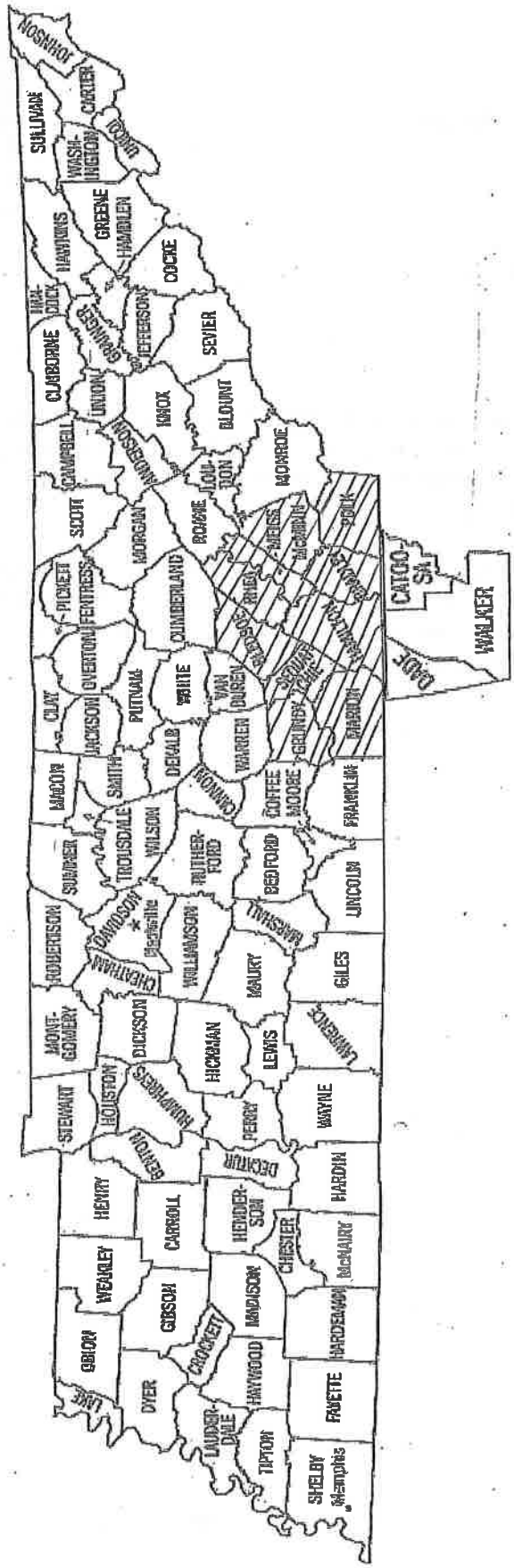
EMC Policy On Outpatient Orders And Medical Necessity	A-54
Quote For Siemens MRI 3.0 Tesla Unit	A-59
Erlanger Interim Financial Statements	A-67
Erlanger Audited Financial Statements	A-70

ATTACHMENTS



ERLANGER HOSPITAL - MRI ADDITION TO WOMEN'S CENTER
MEDICAL MALL - GROUND FLOOR - SCHEMATIC PLAN
DERTHICK HENLEY & WILKERSON ARCHITECTS 4 SEPTEMBER 2014


JOHNSON
SULLIVAN
CARTER
UNICOI
WASH-INGTON
GREENE
HAMBLEN
HAWKINS
COCKE
TAZE-WELL
GRAINGER
JEFFERSON
SEVIER
CLAIBORNE
UNION
KNOX
BLOUNT
CAMPBELL
ANDERSON
LOU-DON
MONROE
SCOTT
MORGAN
ROANE
POLK
PICKETT
FENTRESS
CUMBERLAND
MEIGS
McMINN
CATOO
SA
WALKER
DADE
OVERTON
RHEA
CLAY
JACKSON
PUTNAM
WHITE
VAN BUREN
SEQUA-TCHIE
GRUNDY
MARION
MACON
SMITH
DEKALB
WARREN
CANNON
COFFEE
MOORE
FRANKLIN
SUMNER
TROUSDALE
WILSON
RUTHER-FORD
BEDFORD
LINCOLN
ROBERTSON
DAVIDSON
Nashville
WILLIAMSON
MARSHALL
CHEATHAM
MAURY
GILES
MONT-GOMERY
DICKSON
HICKMAN
LEWIS
LAWRENCE
STEWART
HOUSTON
HUMPHREYS
PERRY
WAYNE
BENTON
DECATUR
HENRY
CARROLL
HENDER-SON
CHESTER
HARDIN
McNAIRY
WEAKLEY
GIBSON
MADISON
HARDEMAN
OBION
CROCKETT
HAYWOOD
FAYETTE
LAKE
DYER
LAUDER-DALE
TIPTON
SHELBY
Memphis

22 September 2014

Mr. Gary Orrell, Construction Manager
Erlanger Health System
975 East Third Street
Chattanooga, TN

DH&W
ARCHITECTURE INTERIORS PLANNING

RE: Renovation for MRI Unit
Ground Floor – Medical Mall

Dear Mr. Orell:

I have attached a drawing titled "Schematic Plan" dated 4 September 2014. The budget indicating a construction cost of $1,030,203 is reasonable considering the complexity for this type of construction. Furthermore the scheduled completion of the work on 18 August 2015 includes reasonable time for all activities associated with this project.

The design for this renovation will meet all known current building codes, TDOH licensing standards, and will follow all requirements for health facility construction including the joint AIA/Federal Standards. Furthermore, the design will incorporate the manufacturer's specifications for preparing the room to facilitate the installation of their equipment.

Sincerely yours,

William H. Wilkerson

William H. Wilkerson

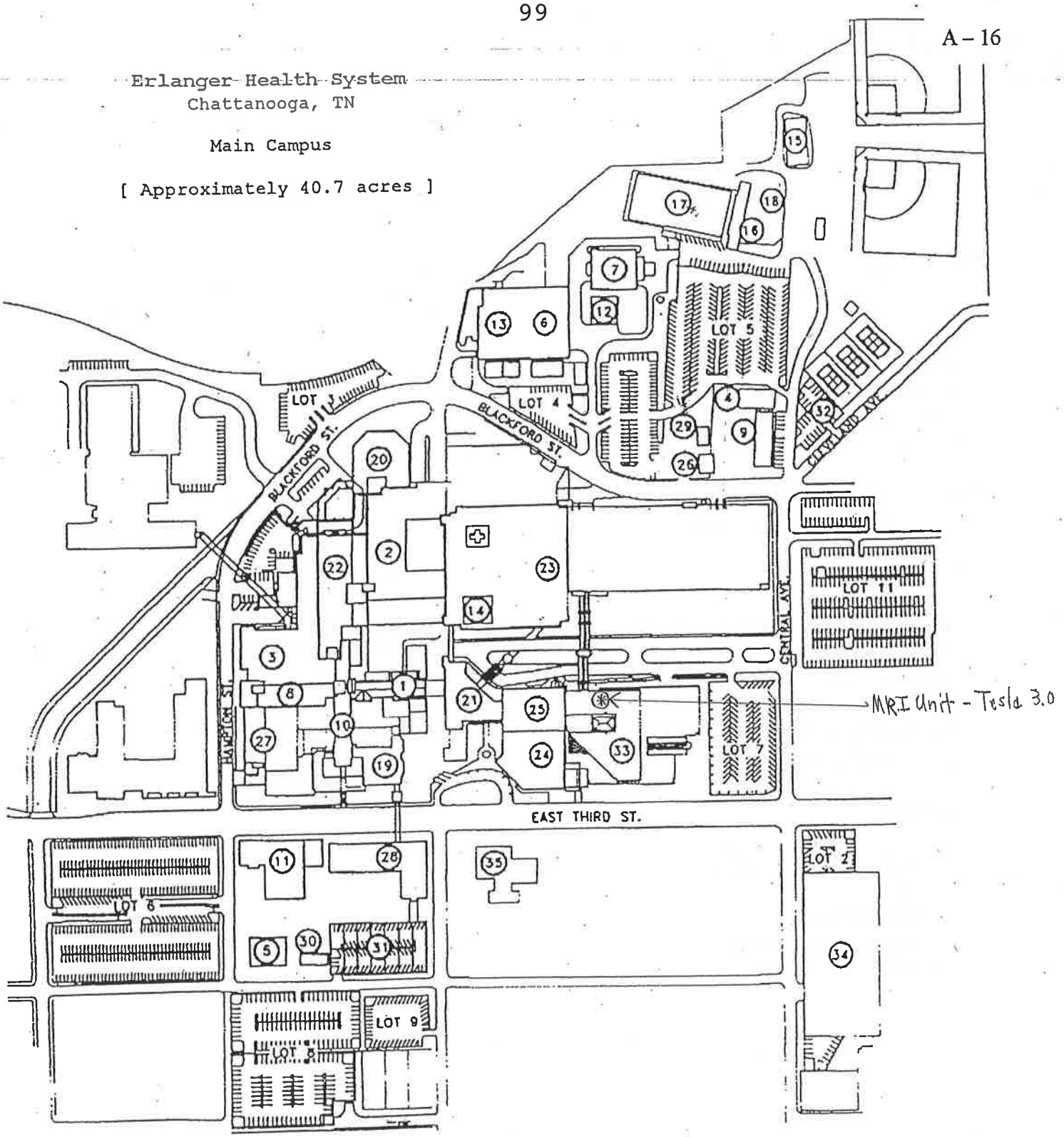
1001 Carter Street | Chattanooga, Tennessee 37402 | voice 423.266.4816 | fax 423.267.8830 | www.dhw-architects.com

A – 16

Erlanger Health System
Chattanooga, TN

Main Campus

[Approximately 40.7 acres]



1. 38 ADDITION
2. ANCILLARY EAST
3. ANCILLARY WEST
4. ENGINEERING TRAILER
5. CARPENTER SHOP
6. CENTRAL ENERGY PLANT
7. CENTRAL INCINERATOT PLANT
8. CENTRAL WING
9. CONSTRUCTION SERVICES BUILDING
10. EAST WING
11. FILLAUER BUILDING
12. GENERATOR BUILDING
13. LAUNDRY
14. LIFE-FORCE HANGER
15. LP-1 STORAGE BUILDING
16. LP-2 GROUNDS SHOP
17. LP-3 MATERIAL MANAGEMENT
18. LP-4 FILTER STORAGE
19. MAGNETIC RESONANCE IMAGING
20. MASSOUD PEDIATRIC BUILDING
21. MILLER EYE CENTER
22. NORTH WING
23. PARKING GARAGE
24. PLAZZA AMBULATORY CARE
25. PROFESSIONAL OFFICE BUILDING
26. TAG-A-LONG TOTS
27. WEST WING
28. WHITEHALL BUILDING
29. MEDICADE QUALIFIERS
30. INHOUSE CONSTRUCTION SHOP
31. WHITEHALL PARKING GARAGE
32. VALET PARKING
33. MEDICAL MALL
34. UT. FAMILY PRACTICE
35. MEDICAL TOWERS

September 5, 2014

Ms. Melanie M. Hill, Executive Director
Tennessee Health Services & Development Agency
500 Deadrick Street, Ste. 850
Nashville, TN 37243

RE: MRI (Tesla 3.0) Scanner
Erlanger Medical Center

Dear Ms. Hill:

This letter serves to confirm Erlanger's intent to fund the cost of the new MRI (Tesla 3.0) scanner of $ 4,597,711 with funds from operations; subject to CON approval as well as approval of the Chattanooga-Hamilton County Hospital Authority.

Please let me know if you have any questions or need further information. Thank you for your consideration.

Sincerely,

J. Britton Tabor, CPA
Executive Vice President
CFO & Treasurer

EHS -- Analysis Of Average Inpatient Charges
For CY 2013

	Erlanger Med Ctr	Memorial Hosp	Parkridge Med Ctr	Erlanger East	Memorial Hosp-Hixson	Parkridge East Hosp
Adverse Effects	23,632	24,363	25,768		20,302	26,192
Back & Spine	56,372	62,321	77,068		19,805	63,991
Burns	41,854		79,165			18,129
Cardiac Surgery	121,317	124,382	187,761			
Dermatology	12,638	18,047	22,945		15,063	22,421
Electrophysiology / Devices	68,224	64,498	137,067		33,055	106,849
Endocrinology	16,973	20,382	34,172		15,515	30,963
Gastroenterology	20,922	23,279	37,279	7,649	19,865	31,826
General Cardiology	20,092	23,017	33,878		20,564	32,532
General Surgery	56,962	44,511	72,165	44,632	33,317	44,307
Gynecology	30,925	34,881	41,628	22,990	19,142	27,419
Hematology	18,019	25,238	55,193		24,342	38,090
HIV Infection	43,118	36,835	38,690		17,866	42,950
Infectious Diseases	48,905	48,026	78,291		29,658	67,501
Invasive Cardiology	46,338	43,668	89,668		33,878	84,705
Neonatology	57,502			10,439		45,521
Nephrology	19,648	24,320	35,305	11,355	19,051	31,393
Neurology	27,860	25,879	36,859		22,363	33,884
Neurosurgery	69,488	35,049	49,150		29,527	39,255
Obstetrics	11,227	12,221	8,801	7,956	5,393	13,730
Oncology	27,498	35,313	59,406		23,053	53,594
Ophthalmology	19,265	17,105	40,009		12,855	30,541
Oral Surgery	15,522	16,295	20,298		14,870	23,542
Orthopedics	45,886	40,948	51,258	39,291	37,175	49,102
Other	69,279	49,940	104,685	19,106	52,845	57,632
Otolaryngology	27,603	22,553	22,753		13,316	34,818
Plastic Surgery	48,458	33,725	49,094		23,011	79,799
Psychiatry	16,521	16,554	41,849		19,930	29,693
Pulmonary Medicine	70,570	40,588	54,690		27,048	45,488
Rehabilitation			59,765			
Rheumatology	26,923	28,367	35,702		11,344	85,627
Signs & Symptoms	15,456	19,239	30,847		14,499	34,786
Substance Abuse	17,311	20,504	35,410		17,257	32,229
Thoracic Surgery	43,438	55,261	81,953		18,872	61,596
Transplant Surgery	133,754	297,366	#DIV/0!			
Urology	35,591	37,434	46,512	25,739	20,151	29,775
Vascular Diseases	16,605	20,754	28,747		13,739	26,520
Vascular Surgery	67,895	75,014	100,399		48,503	108,824
Total	37,396	40,269	61,289	9,085	25,131	29,292

Source: EHS Planning

9/9/2014 2:44 PM

July 8, 2014

Re: # 7809
CCN: #440104
Program: Hospital
Accreditation Expiration Date: April 05, 2017

Kevin M. Spiegel
President and CEO
Erlanger Health System
975 East Third Street
Chattanooga, Tennessee 37403

Dear Mr. Spiegel:

This letter confirms that your March 31, 2014 - April 04, 2014 unannounced full resurvey was conducted for the purposes of assessing compliance with the Medicare conditions for hospitals through The Joint Commission's deemed status survey process.

Based upon the submission of your evidence of standards compliance on June 20, 2014 and June 27, 2014 and the successful on-site Medicare Deficiency Follow-up event conducted on May 19, 2014, the areas of deficiency listed below have been removed. The Joint Commission is granting your organization an accreditation decision of Accredited with an effective date of April 05, 2014. We congratulate you on your effective resolution of these deficiencies.

§482.12 Governing Body
§482.41 Physical Environment
§482.42 Infection Control

The Joint Commission is also recommending your organization for continued Medicare certification effective April 05, 2014. Please note that the Centers for Medicare and Medicaid Services (CMS) Regional Office (RO) makes the final determination regarding your Medicare participation and the effective date of participation in accordance with the regulations at 42 CFR 489.13. Your organization is encouraged to share a copy of this Medicare recommendation letter with your State Survey Agency.

This recommendation applies to the following locations:

Academc Internal Medicine and Endocrinology
979 E. Third Street, Suite B-601, Chattanooga, TN, 37403

Academic Gastroenterology
979 East Third Street, Suite C-825, Chattanooga, TN, 37403

Academic Urologist at Erlanger
979 East Third Street, Suite C - 535, Chattanooga, TN, 37403

Alton Park (Southside) Community Health Center
100 East 37th Street, Chattanooga, TN, 37410

Dodson Avenue Community Health Center
1200 Dodson Avenue, Chattanooga, TN, 37406

Erlanger Academic Urologists
1755 Gunbarrel Road, Suite 209, Chattanooga, TN, 37421

Erlanger at Volkswagon Drive Wellness Center
7380 Volkswagon Drive, Suite 110, Chattanooga, TN, 37416

Erlanger East Family Practice
1755 Gunbarrel Road, Suite 201, Chattanooga, TN, 37421

Erlanger East Imaging
1751 Gunbarrel Road, Chattanooga, TN, 37421

Erlanger Health System - East Campus
1751 Gunbarrel Road, Chattanooga, TN, 37421

Erlanger Health System - Main Site
975 East Third Street, Chattanooga, TN, 37403

Erlanger Health System - North Campus
632 Morrison Springs Road, Chattanooga, TN, 37415

Erlanger Hypertension Management Center
979 East Third Street, Suite B601, Chattanooga, TN, 37403

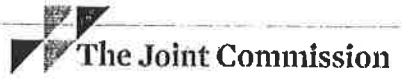
Erlanger Metabolic and Bariatric Surgery Center
979 E. Third Street Suite C-620, Chattanooga, TN, 37403

Erlanger Neurology/Southeast Regional Stroke Center
979 East Third Street, Suite C830, Chattanooga, TN, 37403

Erlanger North Family Practice, Neurobehavioral & Memory Svs
632 Morrison Springs Road, Suite 202, Chattanooga, TN, 37415

Erlanger North Sleep Medicine and Neurology
632 Morrison Springs Road, Suite 300, Chattanooga, TN, 37415

Erlanger South Family Practice
60 Erlanger Drive, Suite A, Ringgold, GA, 30736



Erlanger Specialty Care for OB and Peds
1504 North Thornton Avenue, Suite 104, Dalton, GA, 30720

Hypertension Management - Chattanooga Lifestyle Center
325 Market Street, Suite 200, Chattanooga, TN, 37401

Life Style Center - Cardiac Rehab
325 Market Street, Chattanooga, TN, 37401

Ortho South
979 East Third Street suite C 430, Chattanooga, TN, 37403

Southern Orthopaedic Trauma Surgeons
979 East Third Street Suite C-225, Chattanooga, TN, 37403

TCT Cardiology/GI/Genetics
910 Blackford Street - 3rd Fl Massoud, Chattanooga, TN, 37403

TCT Children's Subspecialty Center
2700 West Side Drive, Cleveland, TN, 37312

TCT Endocrine
910 Blackford, 1st fl Massoud, Chattanooga, TN, 37403

TCT Hematology/Oncology
910 Blackford Street - 5th fl Massoud Bl, Chattanooga, TN, 37403

TCT Nephrology
910 Blackford St, Ground Level, TCTCH, Chattanooga, TN, 37403

University Health Obstetrics & Gynecology
979 East Third Street, Suite C-725, Chattanooga, TN, 37403

University Medical Assoc
960 East Third Street, Whitehall Building, Suite 208, Chattanooga, TN, 37403

University Orthopedics
979 East Third Street, Suite C-220, Chattanooga, TN, 37403

University Pediatrics
910 Blackford Street - Gr floor Massoud, Chattanooga, TN, 37403

University Pulmonary and Critical Care
979 East Third Street, Suite C 735, Chattanooga, TN, 37403

University Rheumatology Associates
979 East Third Street, Suite B-805, Chattanooga, TN, 37403

UT Dermatology
979 East Third Street, - Suite 425 A - Med Mall, Chattanooga, TN, 37403

UT Erlanger Cardiology
975 East Third Street, Suite C-520, Chattanooga, TN, 37403

UT Erlanger Cardiology East
1614 Gunbarrel Road, Ste 101, Chattanooga, TN, 37421

Ut Erlanger Health & Wellness@Signal Mtn
2600 Taft Highway, Signal Mountain, TN, 37377

UT Erlanger Lookout Mtn Primary Care
100 McFarland Road, Lookout Mountain, GA, 30750

UT Erlanger Primary and Athletic Health
1200 Pineville Road, Chattanooga, TN, 37405

UT Family Practice
1100 East Third Street, Chattanooga, TN, 37403

Workforce at UT Family Practice
1100 East 3rd Street, Chattanooga, TN, 37403

We direct your attention to some important Joint Commission policies. First, your Medicare report is publicly accessible as required by the Joint Commission's agreement with the Centers for Medicare and Medicaid Services. Second, Joint Commission policy requires that you inform us of any changes in the name or ownership of your organization, or health care services you provide.

Sincerely,

Mark Pelletier

Mark G. Pelletier, RN, MS
Chief Operating Officer
Division of Accreditation and Certification Operations

cc: CMS/Central Office/Survey & Certification Group/Division of Acute Care Services
CMS/Regional Office 4 /Survey and Certification Staff

STATE OF TENNESSEE
DEPARTMENT OF HEALTH
OFFICE OF HEALTH LICENSURE AND REGULATION
EAST TENNESSEE REGION
5904 LYONS VIEW PIKE, BLDG. 1
KNOXVILLE, TENNESSEE 37919

September 03, 2013

Mr. Kevin Spiegel, Administrator
Erlanger Medical Center
975 E 3rd St
Chattanooga TN 37403

RE: 44-0104

Dear Mr. Spiegel:

The East Tennessee Regional Office conducted a complaint investigation at your facility on August 27-29, 2013. As a result of the investigation, no deficient practice was found.

If our office may be of assistance to you, please feel free to call (865) 588-5656.

Sincerely,

Karen B Kirby / kg

Karen B. Kirby, RN
Regional Administrator
East TN Health Care Facilities

KK: kg

TN00031884 & TN00032253

DEPARTMENT OF HEALTH AND HUMAN SERVICES
CENTERS FOR MEDICARE & MEDICAID SERVICES

PRINTED: 08/29/2013
FORM APPROVED
OMB NO.

A – 31

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION	(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:	(X2) MULTIPLE CONSTRUCTION A. BUILDING B. WING	(X3) DATE COMPLETED
	440104		C 08/29/2013

NAME OF PROVIDER OR SUPPLIER	STREET ADDRESS, CITY, STATE, ZIP CODE
ERLANGER MEDICAL CENTER	975 E 3RD ST CHATTANOOGA, TN 37403

(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X6) COMPLETION DATE
A 000	INITIAL COMMENTS During investigation of complaints #31884 and #32253 at Erlanger Medical Center on August 29, 2013, no deficiencies were cited under 42CFR Part 482, Requirements for Hospitals.	A 000		

LABORATORY DIRECTOR'S OR PROVIDER/SUPPLIER REPRESENTATIVE'S SIGNATURE TITLE (X6) DATE

Any deficiency statement ending with an asterisk (*) denotes a deficiency which the institution may be excused from correcting providing it is determined that other safeguards provide sufficient protection to the patients. (See instructions.) Except for nursing homes, the findings stated above are disclosable 90 days following the date of survey whether or not a plan of correction is provided. For nursing homes, the above findings and plans of correction are disclosable 14 days following the date these documents are made available to the facility. If deficiencies are cited, an approved plan of correction is requisite to continued program participation.

PRINTED: 08/30/2013
FORM APPROVED

Division of Health Care Facilities

A – 32

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION	(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:	(X2) MULTIPLE CONSTRUCTION A. BUILDING: B. WING	(X3) DATE SURVEY COMPLETED
	TNP531140		C 08/29/2013

NAME OF PROVIDER OR SUPPLIER

ERLANGER MEDICAL CENTER

STREET ADDRESS, CITY, STATE, ZIP CODE

975 E 3RD ST
CHATTANOOGA, TN 37403

(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETE DATE
H 001	1200-8-1 Initial This Rule Is not met as evidenced by: During investigation of complaints #31884 and #32253 at Erlanger Medical Center on August 29, 2013, no deficiencies were cited under 1200-8-1, Standards for Hospitals.	H 001		

Division of Health Care Facilities
LABORATORY DIRECTOR'S OR PROVIDER/SUPPLIER REPRESENTATIVE'S SIGNATURE | TITLE | (X6) DATE

Consolidated Interim Financial Statements

May 31, 2014

This financial report is confidential and proprietary information. This document is not a public record until finalized and released by the chief financial officer. The embargo date for the information contained herein is June 26, 2014 at 5P.M. EST. No part of the information contained herein may be released or discussed publicly until this date.

ERLANGER HEALTH SYSTEM
Unaudited Consolidated Balance Sheets as of: May 31, 2014

ASSETS	2014	2013
UNRESTRICTED FUND		
CURRENT:		
Cash and temporary investments	$ 45,264,146	$ 29,637,443
Funds held by trustee - current portion	24,811	28,669
Patient accounts receivable	312,315,359	275,882,672
Less allowances for patient A/R	(227,388,003)	(199,240,929)
Net patient accounts receivable	84,927,356	76,641,743
Other receivables	31,695,484	33,801,897
Due from third party payors	8,635,480	4,812,067
Inventories	13,494,520	12,957,913
Prepaid expenses	8,008,914	6,819,235
Total current assets	192,050,711	164,698,968
PROPERTY, PLANT, AND EQUIPMENT		
Net property, plant and equipment	153,925,617	164,799,817
LONG-TERM INVESTMENTS	299,526	388,750
OTHER ASSETS:		
Assets whose use is limited	131,944,415	129,862,927
Deferred debt issue cost	5,271,566	5,885,831
Other assets	1,912,082	2,080,565
Total other assets	139,128,063	137,829,323
TOTAL	$ 485,403,918	$ 467,716,857

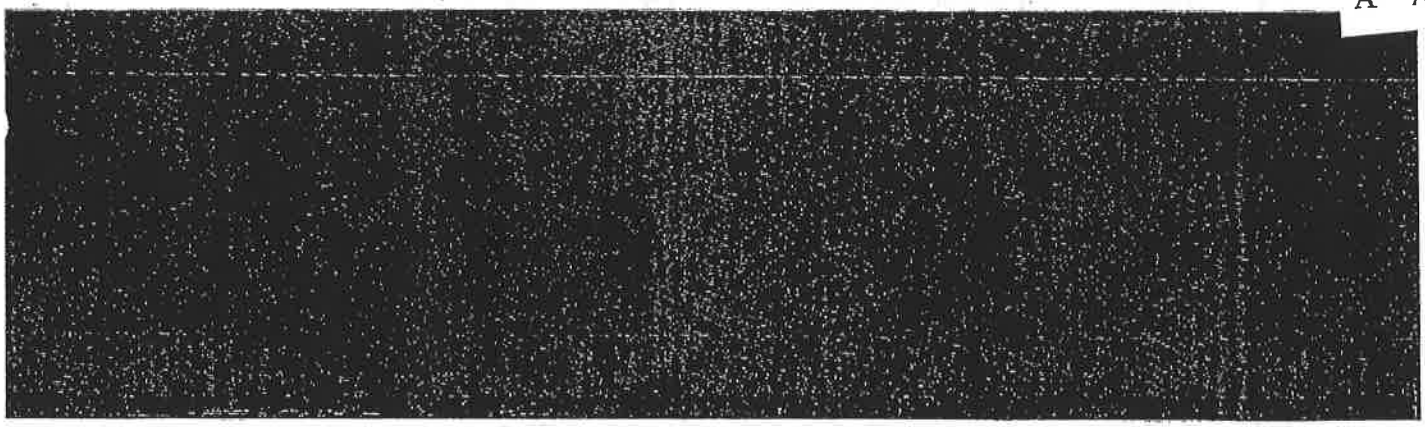
LIABILITIES	2014	2013
UNRESTRICTED FUND		
CURRENT:		
Current maturities of long term debt	$ 10,821,713	$ 8,481,075
Accounts payable	41,993,980	43,913,082
Accrued salaries & related liabilities	17,811,887	17,619,755
Due to third party payors	93,625	2,060,740
Construction fund payable	171,727	206,175
Accrued interest payable	1,175,071	1,308,205
Total current liabilities	72,068,002	73,589,033
POST RETIREMENT BENEFITS (GASB 45 & FAS 112)	28,140,752	15,172,411
RESERVE FOR OTHER LIABILITIES	27,239,588	25,571,930
LONG - TERM DEBT	159,027,238	169,534,471
FUND BALANCE:		
Unrestricted	183,745,515	166,061,296
Invested in capital assets, net of related debt	10,088,278	13,404,495
Restricted	5,094,546	4,383,221
	198,928,338	183,849,012
TOTAL	$ 485,403,918	$ 467,716,857

Erlanger Health System

Unaudited Consolidated Statement of Operations

For the periods ended May 31, 2014 and 2013

	Current Month			Year to Date		
	Actual	Budget	Prior Year	Actual	Budget	Prior Year
Net patient service revenue	$ 51,121,996	$ 49,530,881	$ 46,022,661	$ 531,120,254	$ 515,288,565	$ 492,072,380
Other revenue(expense)	2,332,240	3,015,575	3,209,894	33,386,450	32,401,785	31,528,180
Net operating revenue	53,454,236	52,546,455	49,232,555	564,506,704	547,690,350	523,600,561
Expenses						
Salaries and employee benefits	28,095,882	27,783,199	27,288,480	292,990,706	302,336,570	289,767,795
Supplies	6,935,202	6,715,250	5,820,282	74,623,600	69,772,828	71,133,524
Purchased services	10,224,525	9,442,841	10,468,173	107,281,309	102,736,447	106,742,050
Utilities	644,225	818,777	774,224	8,889,067	8,850,504	8,768,405
Drugs	3,629,447	3,216,175	2,810,832	35,102,426	34,253,405	30,741,499
Depreciation	1,998,243	2,498,080	2,177,420	25,006,228	26,999,696	24,210,923
Insurance & taxes	270,714	273,170	91,095	3,122,740	3,021,742	2,106,037
Total operating expense	51,798,237	50,747,492	49,430,506	547,016,077	547,971,192	533,470,233
Excess rev. over/(under) exp. from operations	1,655,999	1,798,964	(197,950)	17,490,627	(280,842)	(9,869,672)
NONOPERATING INCOME:						
Gain (Losses) on disposal of assets	(20,401)	(17,816)	3,660	(206,124)	(192,692)	(233,019)
Interest Income/Gains (Losses) on Investments	373,353	211,769	(593,261)	2,128,375	2,151,068	579,014
Interest expense	(733,384)	(749,125)	(763,003)	(8,171,145)	(8,095,538)	(8,398,694)
Mark to market on swaps	(120,977)	-	618,348	1,046,674	-	2,138,201
Provisions for income tax	1,250	(22,490)	21,810	(5,020)	104,460	(91,710)
Excess rev. over/(under) expenses	$ 1,155,840	$ 1,221,301	$ (910,398)	$ 12,283,386	$ (6,313,544)	$ (15,875,880)
Operating Margin	3.10%	3.42%	-0.40%	3.10%	-0.05%	-1.88%
Total Margin	2.39%	2.32%	-3.11%	1.99%	-1.15%	-3.44%



CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY (d/b/a Erlanger Health System and Aggregate Discretely Presented Component Units)

Audited Combined Financial Statements

Years Ended June 30, 2013 and 2012

PYA

Certified Public Accountants

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Audited Combined Financial Statements

Years Ended June 30, 2013 and 2012

Independent Auditor's Report....1

Management's Discussion and Analysis....3

Audited Combined Financial Statements

Combined Statements of Net Position....12
Combined Statements of Revenue, Expenses and Changes in Net Position....14
Combined Statements of Cash Flows....16
Notes to Combined Financial Statements....18

PERSHING YOAKLEY & ASSOCIATES, P.C.
One Cherokee Mills, 2220 Sutherland Avenue
Knoxville, TN 37919
p: (865) 673-0844 | f: (865) 673-0173
www.pyapc.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Chattanooga-Hamilton County Hospital Authority
(d/b/a Erlanger Health System):

Report on the Financial Statements

We have audited the accompanying combined financial statements of the business-type activities of Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Health System (the Primary Health System) and its aggregate discretely presented component units, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Primary Health System's basic combined financial statements as listed in the table of contents.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Primary Health System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness

of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Primary Health System as of June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note A to the combined financial statements, during 2013 the Primary Health System adopted the provisions of Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and No.34*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information: Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (shown on pages 3 through 11) be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Pershing Yoakley & Associates PC

Knoxville, Tennessee
September 17, 2013

Management's Discussion and Analysis

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis

Years Ended June 30, 2013 and 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Health System's financial performance provides an overview of the Primary Health System's financial activities for the fiscal years ended June 30, 2013, 2012 and 2011.

Erlanger Health System (the Primary Health System) is the largest healthcare provider in Southeast Tennessee. The Primary Health System maintains a number of very specialized clinical services such as Level I trauma, Level III neonatal, kidney transplantation, a Regional Cancer Unit, a full service children's hospital, and open heart surgery, all of which are primarily serviced by four "Life Force" helicopters and supported by subspecialty physicians (residents, faculty and private attending physicians) located on its campuses.

OVERVIEW OF THE COMBINED FINANCIAL STATEMENTS

The combined financial statements consist of two parts: Management's Discussion and Analysis and the combined financial statements. The combined financial statements also include notes that explain in more detail some of the information in the combined financial statements.

The combined financial statements of the Primary Health System offer short-term and long-term financial information about its activities. The combined statements of net position include all of the Primary Health System's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Primary Health System's creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. It also provides the basis for computing rate of return, evaluating the capital structure of the Primary Health System and assessing the liquidity and financial flexibility of the Primary Health System.

All of the fiscal year's revenues and expenses are accounted for in the combined statements of revenue, expenses, and changes in net position. These statements measure the success of the Primary Health System's operations and can be used to determine whether the Primary Health System has successfully recovered all of its costs through the services provided, as well as its profitability and credit worthiness.

The final required financial statements is the combined statements of cash flows. The primary purpose of these statements is to provide information about the Primary Health System's cash receipts, cash payments and net changes in cash resulting from operating, investing, non-capital financing and financing activities. The statements also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2013 and 2012

OVERVIEW OF THE COMBINED FINANCIAL STATEMENTS - Continued

The analyses of the combined financial statements of the Primary Health System begins on the next page. One of the most important questions asked about the Primary Health System's finances is "Is the financial condition of the Primary Health System as a whole better or worse as a result of the fiscal year's activities?" The combined statements of net position and the combined statements of revenue, expenses and changes in net position report information about the Primary Health System's activities in a way that will help answer this question. These two statements report the net position of the Primary Health System and changes in in the net position. One can think of the Primary Health System's net position – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Primary Health System's net position is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, regulations and new or changed government legislation.

REPORTING ENTITY

The Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Health System (the Primary Health 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 Primary Health System is considered the primary governmental unit for financial reporting purposes. As required by generally accepted accounting principles, these financial statements present the Primary Health System and its component units. The component units discussed below are included in the Primary Health System's reporting entity because of the significance of their operational or financial relationships with the Primary Health System.

ContinuCare HealthServices, Inc., Plaza Surgery, G.P., Cyberknife of Chattanooga, LLC (Cyberknife), UT-Erlanger Medical Group, Inc. (the Medical Group) and Erlanger Health Plan Trust are legally separate organizations for which the Primary Health System is either financially accountable or owns a majority interest. Accordingly, these organizations represent component units of the Primary Health System. The financial statements of Erlanger Health Plan Trust are blended with the financial statements of the Primary Health System, as the Board of Erlanger Health Plan Trust is substantially the same as that of the Primary Health System and the Primary Health System has operational responsibility.

During 2012, the Primary Health System acquired 100% ownership in Plaza Surgery, G.P. As a result, Plaza Surgery, G.P.'s operations are no longer distinct from the Primary Health System.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2013 and 2012

REPORTING ENTITY - Continued

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. At June 30, 2013, 2012 and 2011, the Primary Health System owned 51% of Cyberknife's outstanding membership units. The Medical Group was formed on June 30, 2011 and will provide professional healthcare and related services to the public 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. The Medical Group is currently not active.

KEY FINANCIAL INDICATORS

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

- Excess expenses over revenues from operations for Erlanger Health System for the fiscal year 2013 is $7.9 million compared to excess revenues over expenses of $9.5 million for the fiscal year 2012 and excess revenues over expenses of $5.4 million for the fiscal year 2011.
- Total cash and investment reserves at June 30, 2013 are $38 million (excluding $99 million of Board restricted and $31 million of funds held by Trustees or restricted by donors or others).
- Net days in accounts receivable for Erlanger Health System (utilizing a three month rolling average of net revenue) is 50 days at June 30, 2013 compared to 53 days at June 30, 2012 and 57 days at June 30, 2011.
- For fiscal year 2013, Erlanger Health System recognized $10.6 million in essential access payments from the State of Tennessee compare to $11.4 million in fiscal year 2012 and $7.4 million in fiscal year 2011.
- For fiscal year 2013, Erlanger Health System recognized $8.5 million in disproportionate share payments from the State of Tennessee compared to $9.2 million in fiscal year 2012 and $2.9 million in fiscal year 2011.
- For fiscal year 2012, Erlanger Health System recognized $1.1 million in trauma fund payments from the State of Tennessee compared to $1.0 million in fiscal year 2012 and $1.1 million in fiscal year 2011.
- For fiscal year 2012, Erlanger Health System recognized $3.2 million in a Medicare rural floor budget neutrality settlement payment.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2013 and 2012

KEY FINANCIAL INDICATORS - Continued

- For fiscal year 2011, Erlanger Health System recognized $2.9 million in a one-time supplemental distribution from the Tennessee Hospital Assessment Fund.

The required bond covenants ratios for fiscal year 2013 compared to bond requirements are as follows:

		Master	*Bond Insurer Requirements*		
	June 30, 2013	*Trust Indenture*	*98 Series*	*00 Series*	*04 Series*
Debt service coverage ratio	1.11	1.10	1.10	1.35	1.35
Cushion ratio	6.71	N/A	1.50	N/A	N/A
Current ratio	2.12	N/A	1.50	1.50	1.50
Days cash on hand	70 days			65 days	65 days
Indebtedness ratio	51.31%				65%

The trust indentures and related documents underlying the bonds contain certain covenants and restrictions. For fiscal years 2013 and 2012, the Primary Health System failed to satisfy the debt service coverage ratio required by one of the bond insurers. As a result of the non-compliance, the Primary Health System will be required to engage a management consultant or obtain a waiver from the bond insurer.

NET POSITION

Erlanger Health System's net position for the combined Primary Health System and Aggregate Discretely Presented Component Units decreased by approximately $14 million in the fiscal year 2013. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the Primary Health System's operating activities. Discussion focuses on the Primary Health System and its blended component units.

Net position for the Primary Health System decreased from $200 million as of June 30, 2012 to $186 million as of June 30, 2013. The current ratio (current assets divided by current liabilities) decreased from 2.33 in 2012 to 2.12 in 2013 for the Primary Health System.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2013 and 2012

NET POSITION - Continued

Table 1- Net Position (in Millions)

	June 30, 2013		*June 30, 2012*		*6/30/2011 (before GASB 61 adoption)*	
	Primary Health System	*Aggregate Discretely Presented Component Units*	*Primary Health System*	*Aggregate Discretely Presented Component Units*	*Primary Health System*	*Aggregate Discretely Presented Component Units*
Current and other assets	$ 313	$ 12	$ 328	$ 12	$ 335	$ 14
Capital assets	161	10	158	10	163	7
Total assets	$ 474	$ 22	$ 486	$ 22	$ 498	$ 21
Long-term debt outstanding	$ 169	$ 4	$ 177	$ 4	$ 179	$ 4
Other liabilities	119	4	109	4	115	3
Total liabilities	$ 288	$ 8	$ 286	$ 8	$ 294	$ 7
Net position						
Capital assets, net of debt	$ 10	$ 6	$ -	$ 5	$ 5	$ 2
Restricted, expendable	2	-	2	-	3	-
Unrestricted	174	8	198	9	196	12
Total net position	$ 186	$ 14	$ 200	$ 14	$ 204	$ 14

Days in cash decreased from 81 days as of June 30, 2012 to 73 days as of June 30, 2013 for the Primary Health System resulting from decreased operating margins combined with an $8 million increase in receivable for funds drawn on a line of credit extended to Hutcheson Medical Center, Inc. in fiscal year 2013. Days in cash decreased from 105 days as of June 30, 2011 to 81 days as of June 30, 2012 for the Primary Health System due to decreased operating margins combined with a $12.5 million receivable for funds drawn on a line of credit extended to Hutcheson Medical Center, Inc. in fiscal year 2012.

Days in net accounts receivable decreased from 55 days as of June 30, 2012 to 51 days as of June 30, 2013. Days in net accounts receivable decreased from 57 days as of June 30, 2011 to 55 days as of June 30, 2012.

Capital assets for the Primary Health System were $161 million. Additions for fiscal year 2013 totaled $30 million while $4 million of assets were retired. Depreciation expense was $27 million for the Primary Health System. Retirement of assets reduced accumulated depreciation by $4 million in fiscal year 2013. Construction in progress was $9 million as of June 30, 2013.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2013 and 2012

NET POSITION - Continued

Included in construction in progress at June 30, 2013 are surgical suite expansion projects totaling $3.2 million. Additions for the fiscal year 2012 amounted to $31 million while $59 million of assets were retired. The retirements included the sale and minority tenant leaseback of certain professional office buildings. A gain on the sale of approximately $6.6 million was realized of which $4.9 million was deferred. Depreciation expense was $26 million for the Primary Health System in fiscal year 2012. Retirement of assets reduced accumulated depreciation by $52 million in fiscal year 2012. Construction in progress was $11 million as of June 30, 2011 and $7 million as of June 30, 2012. Included in construction in progress at June 30, 2012 is the Erlanger East expansion of $3.5 million.

	Primary Health System		
	2013	*2012*	*2011*
Land and improvements	$ 26	$ 25	$ 27
Buildings	231	224	243
Equipment	367	351	357
Total	624	600	627
Less accumulated depreciation	(472)	(449)	(475)
Construction in progress	9	7	11
Net property, plant and equipment	$ 161	$ 158	$ 163

Long-term debt outstanding amounted to $169 million as of June 30, 2013 compared to $177 million as of June 30, 2012. The decrease in long-term debt reflects normal scheduled principal payments. Long-term debt outstanding amounted to $177 million as of June 30, 2012 compared to $179 million as of June 30, 2011. The decrease in long-term debt reflects normal scheduled principal payments net of an increase in debt associated with the sale and minority tenant leaseback of the Erlanger East POB.

Other liabilities for the Primary Health System were $119 million as of June 30, 2013, $108 million at June 30, 2012, compared to $115 million as of June 30, 2011.

CHANGES IN NET POSITION

The focus for Erlanger Health System's management team during fiscal year 2013 and 2012 was to increase the Primary Health System's volumes in a number of key product lines in a downturned economy, improve relationships with stakeholders, and improve operating efficiencies.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Management's Discussion and Analysis - Continued

Years Ended June 30, 2013 and 2012

CHANGES IN NET POSITION - Continued

Table 2- Changes in Net Position (in Millions)

	June 30, 2013		*June 30, 2012*		*June 30, 2011*	
	Primary Health System	*Aggregate Discretely Presented Component Units*	*Primary Health System*	*Aggregate Discretely Presented Component Units*	*Primary Health System*	*Aggregate Discretely Presented Component Units*
Net patient revenue	$ 526	$ 12	$ 514	$ 12	$ 513	$ 11
Other revenue	19	16	22	16	20	15
Total revenue	545	28	536	28	533	26
Expenses:						
Salaries	298	13	300	13	292	12
Supplies and expenses	111	10	111	10	112	13
Purchased services	114	3	104	3	94	1
Insurance and taxes	2	1	5	1	4	-
Depreciation and amortization	27	1	26	1	26	-
Total expenses	552	28	546	28	528	26
Operating income revenues in excess of (less than) expenses	(7)	-	(10)	-	5	-
Nonoperating gains	-	-	4	-	2	-
Interest expense and other	(7)	-	(11)	-	(8)	-
Operating/capital contributions	-	-	-	-	1	-
Change in net position	$ (14)	$ -	$ (17)	$ -	$ -	$ -

Net patient service revenue for the Primary Health System increased from $514 million in fiscal year 2012 to $526 million in fiscal year 2013. Admissions for fiscal year 2013 were comparable to fiscal year 2012, however, case mix increased over the prior year by 1.6%. The Erlanger East emergency room opened in March 2013 generating 6,100 additional emergency room visits. Net patient service revenue for the Primary Health System increased from $513 million in fiscal year 2011 to $514 million in fiscal year 2012. Although total admissions were up 3.9% over fiscal year 2011, inpatient surgical patients decreased 4.9% over prior year which resulted in a higher medicine mix of patients. Neonatal intensive care unit patient days decreased by 8.7% compared to prior year.

Salaries for the Primary Health System decreased from $300 million in fiscal year 2012 to $298 million in fiscal year 2013. Paid FTE's per adjusted occupied bed decreased from 5.60 in fiscal year 2012 to 5.40 in fiscal year 2013. Salaries for the Primary Health System increased from $292 million in fiscal year 2011 to $300 million in fiscal year 2012 due to continued growth in strategically critical new physician practices, increase in employee benefits, and approximately $2.6 million in severance payments resulting from a reduction in workforce.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Management's Discussion and Analysis - Continued

Years Ended June 30, 2013 and 2012

CHANGES IN NET POSITION - Continued

Supplies and other expenses were $111 million for fiscal years 2013 and 2012. Supplies and drugs per adjusted admission for the Primary Health System decreased from $1,675 in fiscal year 2012 to $1,587 in fiscal year 2013. Supplies and expenses decreased from $112 million in fiscal year 2011 to $111 million in fiscal year 2012.

Purchased Services increased from $104 million in fiscal year 2012 to $114 million in fiscal year 2013 due to contracted service expenditures assumed with the purchase of Plaza Surgery's minority interest, fees associated with the CEO search, fees associated with the third party operational assessment and implementation, and an increase in rent expense resulting from the sale of the Erlanger East POB. Purchased services increased from $94 million in fiscal year 2011 to $104 million in fiscal year 2012 due to the implementation of Cyberknife services, service excellence initiatives, outsourced security services and billing service fees associated with increased employed physicians' revenue.

Insurance and taxes decreased by $2.5 million from fiscal year 2012 to fiscal year 2013 due to insurance payment received for prior year liability, decreased malpractice liability, and decreased expenses associated with the purchase of Plaza Surgery, G.P. Insurance and taxes increased from $4 million in fiscal year 2011 to $5 million in fiscal year 2012 due to increased malpractice liability.

Depreciation and amortization expense increased from $26 million in fiscal year 2012 to $27 million in fiscal year 2013 due, in part, to the addition of the Erlanger East emergency room. Depreciation and amortization expense was $26 million in fiscal years 2011 and 2012.

Interest expense, including gain (or loss) on mark-to-market of interest rate swaps, decreased from $11 million in fiscal year 2012 to $7 million in fiscal year 2013. The market value of the liability for the mark-to-market of interest rate swaps decreased by $2.3 million in fiscal year 2013 compared to an increase of $1.1 million in fiscal year 2012. Interest expense, including gain (or loss) on mark-to-market of interest rate swaps, increased from $8 million in fiscal year 2011 to $11 million in fiscal year 2012. The market value of the liability for the mark-to-market of interest rate swaps increased by $1.1 million in fiscal year 2012 compared to a decrease of $1.6 million in fiscal year 2011.

OUTLOOK

The State of Tennessee continues to review the TennCare program (the State's Medicaid program). For fiscal years 2011 and 2012, the State passed a Hospital Coverage Fee to offset shortfalls in the State's budget for TennCare. The fee is remained intact for the third consecutive year and TennCare rates were stable in fiscal year 2013. There could be possible TennCare rate

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Management's Discussion and Analysis - Continued

Years Ended June 30, 2013 and 2012

OUTLOOK - Continued

changes in fiscal year 2014 as a result of rate variation initiatives. Out-of-state Medicaid and TennCare changes would affect the Primary Health System's bottom line with TennCare and Medicaid patients representing approximately 24% of the payer mix. Self Pay patients represent approximately 10% 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 30% of the payer mix.

The Primary Health System is currently pursuing participation in the Public Hospital Supplemental Payment Pool which could result in additional funding.

The Primary Health System recognized Essential Access and Disproportionate Share payments totaling $19.1 million from the State of Tennessee for fiscal year 2013, a decrease of $1.5 million from fiscal year 2012. The Primary Health System recognized Essential Access and Disproportionate Share payments from the State of Tennessee fiscal year 2012 which increased by $10 million over fiscal year 2011. Additionally, the Primary Health System recognized trauma funding of $1.1 million in fiscal year 2013 compared to $1 million in fiscal year 2012 and $1.1 million in fiscal year 2011. Payments from the State of Tennessee for the fiscal year 2014 are expected to be consistent with the fiscal year 2013 except for disproportionate share. The funding of disproportionate share for fiscal year 2014 has not been approved by the Federal government. However, it is likely that the Federal government will approve this extension. 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 fiscal years 2013 and 2012. An increase for the fiscal year 2014 is unlikely.

Several initiatives are under way to bring the Primary Health System to a profitable position for the upcoming fiscal year. Operating improvements are being implemented to reduce expenses and grow surgical volumes. Increased surgery volumes are essential to the financial health of the Primary Health System.

Audited Combined Financial Statements

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Combined Statements of Net Position

	June 30, 2013	
	Primary Health System	*Aggregate Discretely Presented Component Units*
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 17,250,905	$ 930,587
Temporary investments	13,797,542	2,938,131
Assets limited as to use available for current liabilities	28,275	-
Patient accounts receivable, net	73,561,669	2,408,177
Estimated amounts due from third party payors	3,116,389	-
Due from other governments	528,032	377,239
Inventories	11,861,728	1,161,097
Receivable from Hutcheson Medical Center	20,550,000	-
Other current assets	20,129,320	1,917,719
TOTAL CURRENT ASSETS	160,823,860	9,732,950
NET PROPERTY, PLANT AND EQUIPMENT	160,973,575	9,643,816
LONG-TERM INVESTMENTS, for working capital	1,790,946	1,599,946
ASSETS LIMITED AS TO USE	130,231,028	-
OTHER ASSETS:		
Deferred financing costs	5,833,775	-
Equity in discretely presented component units and other	13,639,860	-
Other assets	437,820	858,972
TOTAL OTHER ASSETS	19,911,455	858,972
TOTAL ASSETS	$ 473,730,864	$ 21,835,684
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 46,945,723	$ 1,425,315
Accrued salaries and related liabilities	19,131,496	910,318
Estimated amounts due to third party payors	-	93,625
Due to other governments	377,239	528,032
Current portion of long-term debt and capital lease obligations	8,058,625	556,698
Other current liabilities	2,194,117	838,223
TOTAL CURRENT LIABILITIES	76,707,200	4,352,211
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	169,370,173	3,445,959
OTHER LONG-TERM LIABILITIES	41,790,984	-
NET POSITION:		
Unrestricted	173,517,742	8,321,046
Net investment in capital assets	10,125,742	5,716,468
Restricted expendable	2,219,023	-
TOTAL NET POSITION	185,862,507	14,037,514
TOTAL LIABILITIES AND NET POSITION	$ 473,730,864	$ 21,835,684

	June 30, 2012	
	Primary Health System	*Aggregate Discretely Presented Component Units*
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 27,820,469	$ 35,714
Temporary investments	14,510,657	3,210,896
Assets limited as to use available for current liabilities	33,250	-
Patient accounts receivable, net	76,641,438	2,325,057
Due from other governments	905,829	501,472
Inventories	11,566,908	1,155,064
Other current assets	24,383,555	1,528,889
TOTAL CURRENT ASSETS	155,862,106	8,757,092
NET PROPERTY, PLANT AND EQUIPMENT	157,718,163	9,884,006
LONG-TERM INVESTMENTS, for working capital	262,396	2,608,721
ASSETS LIMITED AS TO USE	138,419,178	-
OTHER ASSETS:		
Deferred financing costs	6,458,443	-
Receivable from Hutcheson Medical Center	12,500,000	-
Equity in discretely presented component units and other	13,901,747	175,000
Other assets	461,820	956,272
TOTAL OTHER ASSETS	33,322,010	1,131,272
TOTAL ASSETS	$ 485,583,853	$ 22,381,091
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 36,758,702	$ 630,903
Accrued salaries and related liabilities	19,266,509	937,705
Estimated amounts due to third party payors	380,898	93,625
Due to other governments	501,472	905,829
Current portion of long-term debt and capital lease obligations	7,929,701	500,000
Other current liabilities	2,088,573	1,120,629
TOTAL CURRENT LIABILITIES	66,925,855	4,188,691
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	177,310,823	3,916,667
OTHER LONG-TERM LIABILITIES	41,397,245	-
NET POSITION:		
Unrestricted	197,982,061	8,733,085
Net investment in capital assets	(233,917)	5,542,648
Restricted expendable	2,201,786	-
TOTAL NET POSITION	199,949,930	14,275,733
TOTAL LIABILITIES AND NET POSITION	$ 485,583,853	$ 22,381,091

See notes to combined financial statements.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Combined Statements of Revenue, Expenses and Changes in Net Position

	Year Ended June 30, 2013	
	Primary Health System	*Aggregate Discretely Presented Component Units*
OPERATING REVENUE:		
Charges for services:		
Net patient service revenue	$ 526,139,300	$ 11,345,856
Other revenue	18,969,187	16,241,907
TOTAL OPERATING REVENUE	545,108,487	27,587,763
OPERATING EXPENSES:		
Salaries, wages and benefits	297,831,739	13,607,440
Supplies and other expenses	110,970,317	10,199,559
Purchased services	114,011,044	2,981,048
Insurance and taxes	2,476,434	295,336
Depreciation	26,856,073	1,045,235
TOTAL OPERATING EXPENSES	552,145,607	28,128,618
OPERATING LOSS	(7,037,120)	(540,855)
NONOPERATING REVENUE (EXPENSES):		
Gain on disposal of assets	244,660	590,326
Interest and investment income	24,827	104,642
Net loss from discretely presented component units and other	(261,887)	(175,000)
Interest expense	(9,542,163)	(208,669)
Provision for income taxes	-	(8,663)
Change in mark-to-market of interest rate swaps	2,256,035	-
NET NONOPERATING REVENUE (EXPENSES)	(7,278,528)	302,636
Loss before contributions	(14,315,648)	(238,219)
Operating contributions (distributions)	7,248	-
Capital contributions/other, net	220,977	-
CHANGE IN NET POSITION	(14,087,423)	(238,219)
NET POSITION AT BEGINNING OF YEAR	199,949,930	14,275,733
NET POSITION AT END OF YEAR	$ 185,862,507	$ 14,037,514

	Year Ended June 30, 2012	
	Primary Health System	*Aggregate Discretely Presented Component Units*
OPERATING REVENUE:		
Charges for services:		
Net patient service revenue	$ 514,081,693	$ 11,758,042
Other revenue	22,467,500	16,271,756
TOTAL OPERATING REVENUE	536,549,193	28,029,798
OPERATING EXPENSES:		
Salaries, wages and benefits	300,099,607	13,101,376
Supplies and other expenses	111,165,013	10,454,042
Purchased services	103,908,488	2,788,577
Insurance and taxes	4,921,912	366,516
Depreciation	26,241,609	848,875
TOTAL OPERATING EXPENSES	546,336,629	27,559,386
OPERATING INCOME (LOSS)	(9,787,436)	470,412
NONOPERATING REVENUE (EXPENSES):		
Gain (loss) on disposal of assets	1,815,605	(17,139)
Interest and investment income	2,363,937	127,910
Net gain from discretely presented component units and other	186,011	-
Interest expense	(10,232,817)	(218,057)
Provision for income taxes	-	(160,547)
Change in mark-to-market of interest rate swaps	(1,080,176)	-
NET NONOPERATING EXPENSES	(6,947,440)	(267,833)
Income (loss) before contributions	(16,734,876)	202,579
Operating distributions	(198,111)	-
Capital contributions/other, net	(231,984)	-
CHANGE IN NET POSITION	(17,164,971)	202,579
NET POSITION AT BEGINNING OF YEAR (as previously reported)	204,011,165	14,073,154
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	13,103,736	-
NET POSITION AT BEGINNING OF YEAR	217,114,901	14,073,154
NET POSITION AT END OF YEAR	$ 199,949,930	$ 14,275,733

See notes to combined financial statements.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Combined Statements of Cash Flows

	Primary Health System Year Ended June 30,	
	2013	*2012*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from third-party payors and patients	$ 527,371,215	$ 522,376,450
Payments to vendors and others for supplies, purchased services, and other expenses	(217,039,131)	(222,829,499)
Payments to and on behalf of employees	(297,118,972)	(308,557,666)
Other receipts	23,375,977	17,223,307
NET CASH PROVIDED BY OPERATING ACTIVITIES	36,589,089	8,212,592
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Contributions (distributions)	7,248	(198,111)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets, net	(30,339,955)	(20,962,299)
Principal paid on bonds, capital lease obligations and other	(7,900,842)	(7,396,156)
Proceeds from sale of assets	473,130	11,256,695
Interest payments on long-term debt	(8,971,728)	(9,652,060)
Capital contributions/other, net	220,977	(231,984)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(46,518,418)	(26,985,804)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest, dividends, and net realized gains (losses) on investments	2,468,950	2,168,553
Change in long-term investments for working capital	(815,435)	20,444,766
Advances under note agreeements	(8,050,000)	(12,948,997)
Cash provided by assets limited as to use	5,749,002	1,481,562
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(647,483)	11,145,884
DECREASE IN CASH AND CASH EQUIVALENTS	(10,569,564)	(7,825,439)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	27,820,469	35,645,908
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 17,250,905	$ 27,820,469

	Primary Health System Year Ended June 30, 2013	2012
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (7,037,120)	$ (9,787,436)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	26,856,073	26,241,609
Amortization of deferred liabilities	(620,506)	(155,750)
Provision for self-insurance	178,439	1,203,978
Non-cash operating revenue recognized on Plaza Surgery acquisition	-	(2,175,057)
Changes in assets and liabilities:		
Patient accounts receivable, net	3,079,769	3,803,194
Estimated amounts due from (due to) third party payors, net	(3,497,287)	8,467,153
Inventories and other assets	6,261,212	(7,061,422)
Accounts payable and accrued expenses	10,187,021	(3,268,775)
Accrued salaries and related liabilities	(135,013)	(8,985,999)
Other current and long-term liabilities	1,316,501	(68,903)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 36,589,089	$ 8,212,592

SUPPLEMENTAL INFORMATION:

During the year ended June 30, 2012, the Primary Health System entered into several capital leases with third parties for office space. The capital leases represented liabilities at the inception of the leases of approximately $6,600,000. Additionally, in 2012, as a result of the acquisition of all outstanding units of Plaza Surgery, G.P. (see Note A) deferred receipts were recognized as other operating revenue. Further, in connection with the gain on the sale of property discussed in Note E, proceeds due to Primary Health System of $2,355,000 were withheld and are reflected as other current assets in the combined statements of net position at June 30, 2012. The Primary Health System received the remaining proceeds during the year ended June 30, 2013.

During the year ended June 30, 2013, The Primary Health System received a commitment from a third party to reimburse the Primary Health System for $1,900,000 in renovations performed at Erlanger East. The Primary Health System also recorded a deferred liability in the amount of $1,900,000 that will be amortized (and recognized as operating revenue) over the lease term of 20 years.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements

Years Ended June 30, 2013 and 2012

NOTE A–SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Health System (the Primary Health 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 Chattanooga-Hamilton County Hospital Authority consists of the Primary Health System and its aggregate discretely presented component units as disclosed below.

The Primary Health System provides comprehensive healthcare services throughout Hamilton and Bledsoe counties, as well as outlying areas in southeastern Tennessee and north Georgia. These services are provided primarily through the hospital and other facilities located on the Baroness campus of Erlanger Medical Center. The Primary Health System also operates other hospitals and clinics throughout the area. The Primary Health System is considered the primary governmental unit for financial reporting purposes. As required by accounting principles generally accepted in the United States of America, these combined financial statements present the Primary Health System and its component units. The component units discussed below are included in the Primary Health System's reporting entity because of the significance of their operational or financial relationships with the Primary Health System.

The primary mission of the Primary Health System and its component units is to provide healthcare services to the citizens of Chattanooga, Hamilton County and the surrounding area. Only those activities directly associated with this purpose are considered to be operating activities. Other activities that result in gains or losses unrelated to the Primary Health System's primary mission are considered to be nonoperating.

Erlanger Health Plan Trust, Plaza Surgery, G.P., ContinuCare HealthServices, Inc., Cyberknife of Chattanooga, LLC, and UT-Erlanger Medical Group, Inc. are legally separate organizations which the Primary Health System has determined are component units of the Primary Health System.

Blended Component Units: The financial statements of Erlanger Health Plan Trust are blended with the Primary Health System in the basic combined financial statements as the board of Erlanger Health Plan Trust is substantially the same as that of the Primary Health System and the Primary Health System has operational responsibility.

Plaza Surgery, G.P. (Plaza) operated an ambulatory surgery center on the Primary Health System's campus. In 2012, the Primary Health System purchased the remaining outstanding units of Plaza and its operations are no longer distinct from the Primary Health System, although Plaza remains a separate legal entity. The accompanying 2013 and 2012 combined financial statements reflect Plaza's operations, assets and liabilities as a blended component unit.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE A--SIGNIFICANT ACCOUNTING POLICIES - Continued

Discretely Presented Component Units: The aggregate discretely presented component units column in the combined financial statements includes the financial data of the Primary Health System's other component units. They are reported in a separate column to emphasize that they are legally separate from the Primary Health System. See the combined, condensed financial information in Note Q.

1. ContinuCare HealthServices, Inc. and subsidiary (ContinuCare) provide health and supportive services to individuals in their homes in the Hamilton County and north Georgia areas. ContinuCare also provides retail pharmacy goods and services at four locations in Hamilton County. The Primary Health System owns 100% of the stock of ContinuCare. Separately audited financial statements for ContinuCare HealthServices, Inc. may be obtained by mailing a request to 1501 Riverside Drive, Suite 140, Chattanooga, Tennessee 37406.

   ContinuCare owes the Primary Health System for various services, supplies, and rents provided, or expenses paid on its behalf. Actual expenses incurred related to these services were $2,119,466 and $1,728,869 in 2013 and 2012, respectively, including management fees of approximately $33,000 each year. In addition, ContinuCare provides staffing, contract nurse visits, and administrative services to the Primary Health System. Revenues from such services were $617,427 and $508,888 for the years ended 2013 and 2012, respectively. Amounts due at June 30, 2013 and 2012 are included in amounts due to/from other governments in the accompanying combined financial statements.

2. Cyberknife of Chattanooga, LLC (Cyberknife) provides radiation therapy services, specifically robotic stereotactic radiosurgical services, through the use of a cyberknife stereotactic radiosurgery system on the Primary Health System's campus. At June 30, 2013 and 2012 the Primary Health System owns 51% of Cyberknife's outstanding membership units and Cyberknife is fiscally dependent on the Primary Health System.

   During fiscal year 2011, Cyberknife was capitalized by the contribution of the Primary Health System of $612,000 and the contribution of cash from certain minority partners of $588,000. In addition to the capital contributions, each Member is required as a condition precedent to such Member's admission as a Member of Cyberknife, to deliver limited guaranties, guaranteeing prorata repayment of indebtedness of Cyberknife incurred to finance its equipment costs and its working capital needs. As of June 30, 2013 and 2012, total debt outstanding was $3,916,667 and $4,416,667 respectively. Income is allocated to Members based on ownership percentages and taxed at the Member level based upon the tax status of the partner. The portion of

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE A–SIGNIFICANT ACCOUNTING POLICIES - Continued

income allocated to the Primary Health System is exempt from income taxes based on the Primary Health System's tax-exempt status.

As of June 30, 2013 and 2012, Cyberknife owes the Primary Health System for various services, supplies and rents provided, or expenses paid on its behalf. The Primary Health System owes Cyberknife for radiation services provided by Cyberknife to the Primary Health System's patients. Revenues related to those services provided to the Primary Health System were $1,560,900 and $1,595,300 in 2013 and 2012, respectively. Amounts due at June 30, 2013 and 2012 are included in amounts due to/from other governments in the accompanying combined statements of net position.

3. UT-Erlanger Medical Group, Inc. (the Medical Group) was formed on June 30, 2011 and will provide professional healthcare and related services to the public through employed and contracted licensed physicians and other supporting healthcare providers. The Medical Group is not yet active. 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. However, based upon the significance of the Medical Group's operation to the Primary Health System, management believes its exclusion would be misleading and as such, includes the Medical Group as a component unit.

Erlanger Health System Foundations (the Foundation): The Foundation assists the Primary Health System to promote and develop charitable and educational opportunities as they relate to healthcare services provided by the Primary Health System. The Primary Health System is not financially accountable for the Foundation and as a result the Foundation has not been included in the combined financial statements.

Contributions from the Foundation totaling approximately $920,395 and $494,000 for the years ended June 30, 2013 and 2012, respectively, were recognized as contribution revenue by the Primary Health System.

Use of Estimates: The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE A–SIGNIFICANT ACCOUNTING POLICIES - Continued

Enterprise Fund Accounting: The Primary Health System and its blended component units utilize the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis using the economic resources measurement focus. In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements.* This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, and which does not conflict with or contradict GASB pronouncements: FASB Statements and Interpretations; Accounting Principles Board Opinions; and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

Recently Issued or Effective Accounting Pronouncements: In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus* (GASB 61). The Statement is effective for financial statement periods beginning after June 15, 2012 and amends Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis - for State and Local Governments.* This Statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. The Primary Health System adopted GASB 61 in fiscal year 2013. The impact of the adoption resulted in the Primary Health System recognizing its investment in Cyberknife and ContinuCare on the combined statement of net position and recognition of its share of gains or losses on these entities in the combined statements of revenue, expenses and changes in net position. The 2012 combined financial statements have been restated to comply with GASB 61 and the cumulative effect of a change in accounting principle is included in the combined statement of revenue, expenses and changes in net position to reflect the Primary Health System's cumulative investment in these entities as of July 1, 2011.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement amends the net asset reporting requirements of GASB Statement No. 34 and other pronouncements by incorporating deferred outflows and inflows of resources into the definitions of the required components of the residual measure and renaming that measure as net position, rather than net

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE A–SIGNIFICANT ACCOUNTING POLICIES - Continued

assets. The requirements of this Statement were adopted by the Primary Health System in fiscal year 2013 and the adoption did not have a material impact on the combined financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes reporting standards that reclassify items previously reported as assets or liabilities as deferred inflows or outflows. This Statement will be effective for the Primary Health System in 2014 and management is currently evaluating its impact on the combined financial statements.

In June 2012, the 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. This Statement is required for fiscal years beginning after June 15, 2014 with early adoption encouraged. This Statement will be effective for the Primary Health System in 2015 and management is currently evaluating its impact on the combined financial statements.

Net Patient Service Revenue/Receivables: Net patient service revenue is reported on the accrual basis in the period in which services are provided at rates which reflect the amount expected to be collected. Net patient service revenue includes amounts estimated by management to be reimbursable by third-party payer programs under payment formulas in effect. Net patient revenue also includes an estimated provision for bad debts based upon management's evaluation of collectability based upon the age of the receivables and other criteria, such as payer classification and management's assumptions about conditions it expects to exist and courses of action it expects to take. The Primary Health System's policies do not require collateral or other security for accounts receivable, although the Primary Health System routinely accepts assignment or is otherwise entitled to receive patient benefits payable under health insurance programs, plans or policies. Supplemental payments from the State of Tennessee are recognized when determinable (see Note B).

Charity Care: The Primary Health 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 Primary Health System for other patients. Essentially, these policies define charity services as those services for which minimal payment is anticipated. In assessing a patient's inability to pay, the County and the Primary Health System utilize the generally recognized poverty income levels, but also include certain cases where incurred charges are significant when compared to the income of the patient. These charges are not included in net patient service revenue.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE A--SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventories: Inventories consist principally of medical and surgical supplies, general store supplies, and pharmacy items and are stated at lower of cost (first-in, first-out) or fair market value.

Cash Equivalents: The Primary Health System considers all highly liquid investments with maturities of three months or less when purchased, excluding amounts whose use is limited by board designation, held by trustees under indenture agreement, or otherwise restricted as to use, to be cash equivalents.

Investments: The Primary Health System's investments (including assets limited as to use) 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.* Assets limited as to use include funds designated by the Board, funds held by trustees under trust indentures, and funds restricted by donors or grantors for specific purposes. The Primary Health System considers those investments with maturities of more than three months when purchased, maturing in more than one year and whose use is not limited by board designation, held by trustees under indenture agreement, or otherwise restricted as to use, to be long-term investments. Investments, including assets limited as to use, consist of United States government, government agency and municipal bonds, corporate debt and other short-term investments.

Temporary Investments: The Primary Health System considers all highly liquid investments with maturities of more than three months when purchased and maturing in less than one year, excluding amounts whose use is limited by board designation, held by trustees under indenture agreement, or otherwise restricted as to use, to be temporary investments. Temporary investments consist primarily of United States government agency bonds, municipal bonds and commercial paper.

Derivative Instruments: The Primary Health System records all derivatives as assets or liabilities on the combined statements of net position at estimated fair value and includes credit value adjustments. The Primary Health System's derivative holdings consist of interest rate swap agreements. Since these derivatives have not been determined to be effective the gain or loss resulting from changes in the fair value of the derivatives is recognized in the accompanying combined statements of revenue, expenses and changes in net position. The Primary Health System's objectives in using derivatives are to take advantage of the differences between taxable and tax-exempt debt, and manage exposure to interest rate risks associated with various debt instruments (see Note N).

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE A--SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Property, Plant and Equipment: Property, plant and equipment is recorded on the basis of cost. Donated assets are recorded at their fair market value at the date of donation. Leases that are substantially installment purchases of property are recorded as assets and amortized over their estimated useful lives ranging from three to thirty years; related amortization is included in depreciation expense. Depreciation expense is computed over estimated service lives of the respective classes of assets using the straight-line method. The Primary Health System has established a capitalization threshold for property, plant and equipment of $2,500 except for computer equipment, which has a threshold of $1,000. Interest expense and interest income on borrowed funds related to construction projects are capitalized during the construction period, if material. Costs of maintenance and repairs are charged to expense as incurred.

The Primary Health System previously adopted the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The Primary Health System did not experience any prominent events or changes in circumstances affecting capital assets which would require determination as to whether impairment of a capital asset has occurred during the years ended June 30, 2013 and 2012.

Compensated Absences: The Primary Health System recognizes an expense and accrues a liability for employees' paid annual leave and extended illness benefits in the period in which the employees' right to such compensated absences are earned. Liabilities expected to be paid within one year are included as accrued salaries and related liabilities in the accompanying combined statements of net position.

Deferred Financing Costs: Deferred financing costs consist principally of costs associated with bond issues and are being amortized, generally, over the terms of the respective debt issues by the effective interest method.

Income Taxes: The Primary Health System is exempt from income taxes under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, it qualifies for exemption from federal income taxes pursuant to IRC Section 115 as an instrumentality of the State of Tennessee. Therefore, no provision for income taxes has been recognized in the accompanying combined financial statements for the Primary Health System. Tax returns for the years ended June 30, 2010 through 2013 are subject to examination by taxing authorities.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE A--SIGNIFICANT ACCOUNTING POLICIES - Continued

As a for-profit entity, ContinuCare is subject to state and federal income taxes. ContinuCare HealthServices, Inc. and its subsidiary file consolidated federal income tax returns separately from the Primary Health System. At June 30, 2013 and 2012, ContinuCare had no significant uncertain tax positions. Tax returns for the years ended June 30, 2008 through 2013 are subject to examination by taxing authorities.

As a Limited Liability Corporation, Cyberknife, a discretely presented component unit, is subject to State of Tennessee income taxes. At June 30, 2013 and 2012, Cyberknife had no significant uncertain tax positions. Tax returns for the years ended June 30, 2010 through 2013 are subject to examination by taxing authorities.

Contributed Resources: Resources restricted by donors for specific operating purposes are held as restricted funds and are recognized as operating or capital contributions in the accompanying combined financial statements. When expended for the intended purpose, they are reported as operating distributions and are recognized as other operating revenue. Contributed resources consist of amounts restricted by donors for specific purposes. Fundraising expenses are netted against contributions recognized.

Net Position: The net position of the Primary Health System is classified into three components. *Net investment in capital assets* consists of capital and other assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The *restricted expendable* net position consists of assets that must be used for a particular purpose that are either externally imposed by creditors, grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. *The unrestricted net position* is remaining assets that do not meet the definition of *net investment in capital assets* or *restricted expendable.*

Fair Value of Financial Instruments: The carrying amounts reported in the combined statements of net position for cash, accounts receivable, investments, accounts payable and accrued expenses approximate fair value.

The carrying value of long-term debt and capital lease obligations (including the current portion) was $177,428,798 as of June 30, 2013 and $185,240,524 as of June 30, 2012. The estimated fair value of long-term debt and capital lease obligations (including current portion) was $186,227,537 and $194,322,333 as of June 30, 2013 and 2012, respectively. The fair value of long-term debt related to fixed interest long-term debt and capital lease obligations was estimated using discounted cash flows, based on the Primary Health System's incremental borrowing rates or from quotes obtained from investment advisors. The fair value of long-term debt related to variable rate debt approximates its carrying value.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE A–SIGNIFICANT ACCOUNTING POLICIES - Continued

Subsequent Events: The Primary Health System evaluated all events or transactions that occurred after June 30, 2013 through September 17, 2013, the date the combined financial statements were available to be issued. Management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2013 combined financial statements other than an agreement reached with the University of Tennessee College of Medicine (UTCOM) in September 2013 to reimburse the Primary Health System approximately $2,300,000 related to a refund of employment taxes in fiscal year 2013 to UTCOM by the Internal Revenue Service. The Primary Health System had previously reimbursed UTCOM for these expenses. The amount was recognized as a receivable at June 30, 2013 in the combined statement of net position and as a reduction of salaries, wages and benefits expense in the combined statement of revenues, expenses and changes in net position.

Reclassifications: In addition to the adoption of GASB 61, discussed previously, certain reclassifications have been made to the 2012 combined financial statements to conform with the 2013 combined financial statement presentation.

NOTE B–NET PATIENT SERVICE REVENUE

A reconciliation of the amount of services provided to patients at established rates by the Primary Health System to net patient service revenue as presented in the combined statements of revenue, expenses and changes in net position for the years ended June 30, 2013 and 2012 is as follows:

	Primary Health System	
	2013	*2012*
Inpatient service charges	$ 986,725,639	$ 1,007,816,189
Outpatient service charges	706,628,068	657,002,015
Gross patient service charges	1,693,353,707	1,664,818,204
Less: Contractual adjustments and other discounts	991,945,605	974,199,369
Charity care	101,729,252	77,554,683
Estimated provision for bad debts	73,539,550	98,982,459
	1,167,214,407	1,150,736,511
Net patient service revenue	$ 526,139,300	$ 514,081,693

Charity Care and Community Benefit: The Private Act of the State of Tennessee establishing the Primary Health System obligates the Primary Health 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

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE B--NET PATIENT SERVICE REVENUE - Continued

appropriation from Hamilton County was not to be less than $3,000,000 in each fiscal year without approval of the Primary Health System, so long as the 1966 Hamilton County Sales Tax Agreement remains in effect. The Sales Tax Agreement expired in May 2011 which resulted in a $1,500,000 reduction for fiscal year 2013 and 2012. Total charity care charges for services provided to the certified indigent residents of Hamilton County (net of the appropriation) were approximately $23,757,000 and $23,387,000 for the years ended June 30, 2013 and 2012 for the Primary Health System.

In addition to charity care provided to specific patients within the hospital setting, the Primary Health System also provides unreimbursed services to the community which includes free and low cost health screenings. The Primary Health System also hosts health fairs and helps sponsor many other events that are free to the public and are spread throughout the year in various community locations.

The Primary Health System's Community Relations department, which conducts health, wellness, safety education classes and health screenings, includes Erlanger HealthLink Plus, a free adult membership program with over 15,000 members in the Chattanooga Statistical Metropolitan Service Area. The program provides over 16 classes and/or screenings and fitness opportunities per month that are free or at a low cost to members and to the community. These classes and screenings are held in two primary locations with additional classes at satellite locations in the region. As part of Community Relations, Safe & Sound, an injury prevention service of Children's Hospital, offers free educational events regarding childhood injury prevention, including free car seat inspection and installation workshops. The Community Relations program utilizes the services of physicians, nurses, volunteers, educators, registered dietitians, social workers, secretaries and management personnel of the Primary Health System.

The Primary Health System's consumer call center, Erlanger HealthLink (423-778-LINK) is a free call center staffed by RN's to answer health questions, offer free physician referrals and to register participants in the programs offered by Community Relations, Women's & Infant Services and other departments and divisions of the Primary Health System.

Uncompensated Care Costs: The following table summarizes the estimated total uncompensated care costs provided by Erlanger Medical Center as defined by the State of Tennessee for the years ended June 30, 2013 and 2012:

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE B--NET PATIENT SERVICE REVENUE - Continued

	2013	*2012*
Uncompensated cost of TennCare/Medicaid	$ 28,228,719	$ 27,864,201
Traditional charity uncompensated costs	33,423,115	25,568,279
Bad debt cost	23,429,117	32,074,717
Total uncompensated care costs	$ 85,080,951	$ 85,507,197

The uncompensated cost of TennCare/Medicaid is estimated by taking the estimated cost of providing care to the TennCare/Medicaid patients less payments from the TennCare and Medicaid programs. The payments exclude revenues from essential access and other, one-time supplemental payments from TennCare of approximately $10,615,000 and $11,359,300 for the years ended June 30, 2013 and 2012, respectively, as such payments are not guaranteed for future periods. Traditional charity uncompensated costs exclude approximately $1,500,000 of local government support annually in 2013 and 2012.

Revenue from Significant Payers: Gross patient service charges related to the Medicare program accounted for approximately 29.6% and 29.7% of the Primary Health System's patient service charges for the years ended June 30, 2013 and 2012, respectively. Gross patient service charges related to the TennCare/Medicaid programs accounted for approximately 24.1% and 24.8% of the Primary Health System's patient service charges for the years ending June 30, 2013 and 2012, respectively. TennCare typically reimburses providers at an amount less than their cost of providing services to TennCare patients. At June 30, 2013 and 2012, the Primary Health System has a credit concentration related to the Medicare and TennCare programs.

During 2013 and 2012, the Primary Health System recognized revenue from these programs related to disproportionate share payments and trauma fund payments of $9,622,000 and $10,176,000, respectively. During 2013 and 2012, the Primary Health System also recognized approximately $2,667,000 and $3,100,000, respectively, of revenue related to electronic health records expenditures reimbursed by the Medicare and Medicaid programs. Such amounts are subject to audit. Additionally, in 2012, the Primary Health System received approximately $3,200,000 from Medicare related to a rural floor budget neutrality settlement that has been recognized as net patient revenue.

Laws and regulations governing the Medicare and TennCare/Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates, as they relate to revenue recognized from these programs, will change by a material amount in the near term. The estimated reimbursement amounts are adjusted in subsequent

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE B--NET PATIENT SERVICE REVENUE - Continued

periods as cost reports are prepared and filed and as final settlements are determined. Final determination of amounts earned under prospective payment and cost reimbursement activities is subject to review by appropriate governmental authorities or their agents. Management believes that adequate provisions have been made for adjustments that may result from final determination of amounts earned under Medicare and Medicaid programs. The effect of prior year cost report settlements, or changes in estimates, increased net patient service revenue by approximately $2,163,000 in 2013 and by approximately $1,770,000 in 2012.

The Primary Health System believes that it is substantially in compliance with all applicable laws and regulations. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers, such as the Medicare Recovery Audit Contractor Program. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes that any amounts payable related to audits through the Medicare Recovery Audit Contractor program, or similar initiatives, will not have a significant impact on the combined financial statements. However, due to the uncertainties involved, management's estimate could change in the future.

The Primary Health System has also entered into reimbursement agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates, per diems and discounts from established charges.

NOTE C--CASH AND CASH EQUIVALENTS

Cash and cash equivalents reported on the combined statements of net position include cash on hand and deposits with financial institutions including demand deposits and certificates of deposit.

The carrying amount of cash and cash equivalents consists of the following at June 30:

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE C--CASH AND CASH EQUIVALENTS - Continued

	Primary Health System	
	2013	*2012*
General Fund:		
Demand deposits	$ 15,087,535	$ 25,703,339
Cash on hand	9,904	10,254
Cash equivalents	2,153,466	2,106,876
	$ 17,250,905	$ 27,820,469

Cash equivalents include certificates of deposit, money market accounts, U.S. Government agency investments and commercial paper whose maturity, when purchased, was three months or less.

Bank balances consist of the following at June 30:

	Primary Health System	
	2013	*2012*
Insured (FDIC)	$ 622,493	$ 3,770,196
Collateralized under the State of Tennessee Bank Collateral Pool	21,221,755	20,008,446
Other	272,275	-
	$ 22,116,523	$ 23,778,642

In addition to the above bank balances, the Primary Health System held investments which met the definition of a cash equivalent and are included in cash and cash equivalents. At June 30, 2013 and 2012, amounts totaling $2,153,466 and $2,106,876 respectively, were invested in U.S. Government agency obligations and commercial paper.

Through December 31, 2010, the Primary Health System maintained bank balances with certain financial institutions which participated in the Federal Deposit Insurance Corporation (FDIC) Transaction Account Guarantee (TAG) Program. The TAG program expired on December 31, 2010, with the Dodd-Frank Deposit Insurance Provision becoming effective through December 31, 2012. Under the Dodd-Frank Deposit Insurance Provision, all non-interest bearing transaction accounts held by FDIC-insured depository institutions are fully insured by the FDIC for the entire balance of the account. On December 31, 2012 the Dodd-Frank Insurance Provisions expired and as of June 30, 2013, FDIC insurance was $250,000 per account holder, per bank.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE C--CASH AND CASH EQUIVALENTS - Continued

The Primary Health System's deposits would be exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or are collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor government's name. The risk is that, in the event of the failure of a depository financial institution, the Primary Health System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

NOTE D--DISAGGREGATION OF RECEIVABLE AND PAYABLE BALANCES

Patient Accounts Receivable, Net: Patient accounts receivable and related allowances are as follows at June 30:

	Primary Health System	
	2013	*2012*
Gross patient accounts receivable	$ 270,824,481	$ 296,701,066
Estimated allowances for contractual adjustments and uncollectible accounts	(197,262,812)	(220,059,628)
Net patient accounts receivable	$ 73,561,669	$ 76,641,438

Other Current Assets: Other current assets consist of the following at June 30:

	Primary Health System	
	2013	*2012*
Prepaid expenses	$ 5,205,938	$ 5,000,884
Other receivables	14,923,382	19,382,671
Total other current assets	$ 20,129,320	$ 24,383,555

Accounts Payable and Accrued Expenses: Accounts payable and accrued expenses consist of the following at June 30:

	Primary Health System	
	2013	*2012*
Due to vendors	$ 44,847,075	$ 33,759,165
Other	2,098,648	2,999,537
Total accounts payable and accrued expenses	$ 46,945,723	$ 36,758,702

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE D--DISAGGREGATION OF RECEIVABLE AND PAYABLE BALANCES - Continued

Other Long-Term Liabilities: Other long-term liabilities consist of the following at June 30:

	Primary Health System	
	2013	*2012*
Pension obligation	$ 10,439,507	$ 10,547,623
Postretirement benefits other than pensions	5,921,563	4,851,114
Compensated absences	6,567,615	7,019,203
Medical malpractice and general liabilities	4,985,000	5,462,500
Interest rate swaps	4,856,429	7,112,464
Deferred gain on sale of property	4,400,481	4,865,237
Other	4,620,389	1,539,104
Total other long-term liabilities	$ 41,790,984	$ 41,397,245

NOTE E--NET PROPERTY, PLANT AND EQUIPMENT

Net property, plant and equipment activity for the Primary Health System for the years ended June 30, 2013 and 2012 consisted of the following:

	Balance at June 30, 2011	*Additions*	*Reductions/ Transfers*	*Balance at June 30, 2012*	*Additions*	*Reductions/ Transfers*	*Balance at June 30, 2013*
Capital assets:							
Land and improvements	$ 26,883,511	$ 385,757	$ 1,913,362	$ 25,355,906	$ 298,962	$ -	$ 25,654,868
Buildings	243,445,965	9,082,187	28,652,217	223,875,935	6,845,858	-	230,721,793
Equipment	357,235,297	21,779,957	28,498,593	350,516,661	20,581,177	4,240,082	366,857,756
	627,564,773	31,247,901	59,064,172	599,748,502	27,725,997	4,240,082	623,234,417
Accumulated depreciation :							
Land and improvements	12,552,092	589,770	1,916,632	11,225,230	398,356	-	11,623,586
Buildings	176,624,223	7,720,427	22,551,870	161,792,780	7,808,629	319,543	169,281,866
Equipment	285,520,631	17,931,412	27,664,817	275,787,226	18,649,088	3,692,069	290,744,245
	474,696,946	26,241,609	52,133,319	448,805,236	26,856,073	4,011,612	471,649,697
Capital assets net of accumulated depreciation	152,867,827	5,006,292	6,930,853	150,943,266	869,924	228,470	151,584,720
Construction in progress ($11,366,347 estimated cost to complete at June 30, 2013)	10,463,103	16,548,309	20,236,515	6,774,897	24,935,626	22,321,668	9,388,855
	$ 163,330,930	$ 21,554,601	$ 27,167,368	$ 157,718,163	$ 25,805,550	$ 22,550,138	$ 160,973,575

Depreciation expense totaled $26,856,073 and $26,241,609 for the years ended June 30, 2013 and 2012, respectively. Construction in progress at June 30, 2013 consists of various projects for additions and renovations to the Primary Health System's facilities.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE E--NET PROPERTY, PLANT AND EQUIPMENT - Continued

During 2012, the Primary Health System entered into an agreement to sell certain professional office buildings (POBs) and concurrently entered into agreements to lease space from the purchaser. The sales price of the POBs was approximately $13,333,000, and a gain of approximately $6,695,000 was realized, including proceeds of approximately $2,355,000 held back until such time as certain of the leases are finalized. The amount held back is included as other current assets in the combined statement of net position at June 30, 2012 and was received during the year ended June 30, 2013.

Since the Primary Health System is leasing back certain space, accounting principles generally accepted in the United States required a portion of the gain be deferred and recognized over the terms of the leases. At June 30, 2013 and 2012, the deferred gain totaled approximately $4,400,000 and $4,865,000, respectively and is included as a part of other long-term liabilities in the accompanying combined statements of net position. Amortization of the deferred gain is included in non-operating revenue (expenses) for the years ended June 30, 2013 and 2012.

The leases entered into (or committed to) under this sale/leaseback agreement include certain leases which meet the criteria for capitalization and are included in Note M.

NOTE F--INVESTMENTS AND ASSETS LIMITED AS TO USE

The Primary Health System's investments (including assets limited as to use) are reported at estimated fair value based, generally, on quoted market prices in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* The Primary Health System invests in United States government and agency bonds, municipal bonds, corporate debt, certificates of deposit and short-term money market investments that are in accordance with the Primary Health System's investment policy. Temporary investments at June 30, 2013 and 2012 consist primarily of United States government agency bonds, state and local government bonds and commercial paper.

The carrying and estimated fair values for long-term investments, and assets limited as to use, by type, at June 30 are as follows:

	Primary Health System	
	2013	*2012*
U.S. Government and agency bonds, including municipal bonds, mutual funds, and other	$ 111,569,814	$ 119,596,675
Corporate bonds and commercial paper	4,348,798	940,586
Short-term investments and cash equivalents	16,131,637	18,177,563
Total investments and assets limited as to use	$ 132,050,249	$ 138,714,824

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE F–INVESTMENTS AND ASSETS LIMITED AS TO USE - Continued

Assets limited as to use are classified as follows:

	Primary Health System	
	2013	*2012*
By board of trustees for capital improvements	$ 99,572,404	$ 108,023,256
Under bond indentures - held by trustees	20,901,235	20,900,048
Self-insurance trust	6,318,010	6,089,183
Restricted by donors and other	3,467,654	3,439,941
	130,259,303	138,452,428
Less current portion	(28,275)	(33,250)
Total assets whose use is limited	$ 130,231,028	$ 138,419,178

Assets limited as to use by the board of trustees for capital improvements are to be used for the replacement of property and equipment or for any other purposes so designated.

Funds held by trustees under bond indenture at June 30 are as follows:

	Primary Health System	
	2013	*2012*
Debt service reserve funds	$ 20,718,915	$ 20,712,768
Principal and interest funds	28,275	33,250
Other funds	154,045	154,030
Total funds held by trustees under bond indenture	$ 20,901,235	$ 20,900,048

These funds held by trustees consist primarily of United States government agency obligations, state and local government obligations, corporate debt, and other short-term investments and cash equivalents. The debt service reserve fund is to be used only to make up any deficiencies in other funds related to the Hospital Revenue and Refunding Bonds Series 1997A, Series 1998A, Series 2000 and Series 2004. The principal and interest funds are to be used only to pay principal and interest, respectively, on the Series 1997A, Series 1998A, Series 2000 and Series 2004 bonds.

The Primary Health System has implemented the disclosure requirements of GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (GASB No. 40) and, accordingly, the Primary Health System has assessed the custodial credit risk, the concentration of credit risk, credit risk,

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE F--INVESTMENTS AND ASSETS LIMITED AS TO USE - Continued

and investment rate risk of its cash and investments. The Primary Health System's investment policy specifies the types of investments which can be included in board-designated assets limited as to use, as well as collateral or other security requirements. The investment policy also specifies the maximum maturity of the portfolio of board-designated assets. Assets limited as to use and held by trustees are invested as permitted by the bond indenture.

Custodial Credit Risk: The Primary Health System's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Primary Health System, and are held by either the counterparty or the counterparty's trust department or agent but not in the Primary Health System's name. The investment risk is that, in the event of the failure of the counterparty to a transaction, the Primary Health System will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

As of June 30, 2013 and 2012, the Primary Health System's investments, including assets limited as to use, were comprised of various short-term investments, U.S. government and government agency bonds, municipal obligations, corporate bonds, commercial paper, and other U.S. Treasury obligations. Substantially all of the Primary Health System's investments, including assets limited as to use, are uninsured or unregistered. Securities are held by the counterparty, or by its trust department or agent, in the Primary Health System's name.

Concentration of Credit Risk: This is the risk associated with the amount of investments the Primary Health System has with any one issuer that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The Primary Health System's investment policy does not restrict the amount that may be held for any single issuer. At June 30, 2013, none of the Primary Health System's investments with any one issuer exceed 5% of its total investments except certain U.S. Government agencies.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB No. 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government. The Primary Health System's investment policy provides guidelines for its fund managers and lists specific allowable investments.

The credit risk profile of the Primary Health System's investments, including assets limited as to use (excluding U.S. Government securities), as of June 30, 2013, is as follows:

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE F--INVESTMENTS AND ASSETS LIMITED AS TO USE - Continued

Investment Type	Balance as of June 30, 2013	Rating					
		AAA	AA	A	BBB	BB	N/A
U.S Government agency bonds	$ 41,071,080	$ 39,483,550	$ 1,587,530	$ -	$ -	$ -	$ -
Bond mutual funds and other	5,618,901	5,618,901	-	-	-	-	-
Municipal bonds	6,747,750	1,540,570	4,200,440	1,006,740	-	-	-
Corporate bonds and commercial paper	4,348,798	3,004,200	-	1,344,598	-	-	-
Cash equivalents	16,153,954	-	-	-	-	-	16,153,954
Total investments	$ 73,940,483	$ 49,647,221	$ 5,787,970	$ 2,351,338	$ -	$ -	$ 16,153,954

Investment Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Primary Health System's investment policy authorizes a strategic asset allocation that is designed to provide an optimal return over the Primary Health System's investment horizon and within specified risk tolerance and cash requirements.

The distribution of the Primary Health System's investments, including assets limited as to use, and excluding the self-insurance trust, by maturity as of June 30, 2013, is as follows:

Investment Type	Balance as of June 30, 2013	Remaining Maturity				
		12 months or less	13-24 Months	25-60 Months	Over 60 Months	N/A
U.S. Government bonds and agency funds and other	$ 103,283,374	$ 26,781,628	$ 19,349,742	$ 31,925,740	$ 25,226,264	$ -
Municipal bonds	5,298,686	-	3,324,586	1,974,100	-	-
Corporate bonds and commercial paper	4,348,798	4,348,798	-	-	-	-
Cash equivalents	12,801,381	12,801,381	-	-	-	-
Total investments	$ 125,732,239	$ 43,931,807	$ 22,674,328	$ 33,899,840	$ 25,226,264	$ -

Additionally, the distribution of the Primary Health System's investments held under the self-insurance trust as of June 30, 2013, is as follows:

Investment Type	Balance as of June 30, 2013	Remaining Maturity					
		24 months or less	25-60 Months	61-120 Months	121-240 Months	Over 240 Months	N/A
Bond Mutual Funds	$ 5,618,901	$ -	$ -	$ -	$ -	$ -	$ 5,618,901
Cash equivalents	699,109	699,109	-	-	-	-	-
Total investments	$ 6,318,010	$ 699,109	$ -	$ -	$ -	$ -	$ 5,618,901

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE G–LONG-TERM DEBT

Long-term debt at June 30 consists of the following:

	Primary Health System	
	2013	*2012*
Revenue and Refunding Bonds, Series 2004, net of bond discount of $532,793 in 2013 and $684,990 in 2012 and including bond issue premium of $1,443,483 in 2013 and $1,584,311 in 2012	$ 71,955,690	$ 76,754,321
Hospital Revenue Refunding Bonds, Series 2000, including bond issue premium of $281,255 in 2013 and $304,215 in 2012	34,581,255	36,404,215
Hospital Revenue Bonds, Series 1998A, net of bond discount of $280,615 in 2013 and $295,384 in 2012	18,329,385	18,859,616
Hospital Revenue Bonds, Taxable Series 1997A	41,000,000	41,000,000
Total bonds payable	165,866,330	173,018,152
Less: unamortized premium paid on advance refunding	(809,251)	(895,189)
Total bonds payable, net	165,057,079	172,122,963
Other Loans and Notes Payable	5,630,515	6,282,894
Capital leases - Note M	6,741,204	6,834,667
	177,428,798	185,240,524
Less: current portion	(8,058,625)	(7,929,701)
	$ 169,370,173	$ 177,310,823

During fiscal year 2011, the Primary Health System entered into a term loan (the Loan) with a financial institution in the maximum amount of $7,000,000 to finance the acquisition of the Lifestyle Center property. The rate of interest on the loan is a fixed rate equal to 5.45%. Monthly payments of principal and interest are payable on the first day of each month for a 10 year term beginning December 1, 2010, with a final payment equal to the unpaid principal plus accrued and unpaid interest due at maturity. The loan contains certain covenants and restrictions. Management believes the Primary Health System was in compliance with all such covenants at June 30, 2013.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE G–LONG-TERM DEBT - Continued

The Primary Health System entered into a non-revolving line of credit loan (the Credit Agreement) with a financial institution in the maximum amount of $41,000,000 to potentially refund the outstanding principal amount of the Primary Health System's 1997A Hospital Revenue Bonds if London InterBank Offered Rate (LIBOR) materially changes. The rate of interest on disbursed funds, if any, will be a variable rate equal to the London InterBank Offered Rate plus an applicable margin, as outlined in the Credit Agreement. Monthly installment payments of the outstanding principal amount, if any, shall be amortized over a period of seventeen years. As of June 30, 2013, the Primary Health System has not drawn on the Credit Agreement.

During fiscal year 2010, the Primary Health System remarketed the Series 2004 Hospital Revenue Refunding Bonds (Series 2004) and the Series 2000 Hospital Revenue Refunding Bonds (Series 2000), as described below, and converted such bonds from a variable auction rate to a fixed rate.

On January 1, 2004, the Primary Health System issued $85,000,000 insured Series 2004 bonds for the purpose of refunding $80,925,000 of the total outstanding Series 1993 bonds (described below). The Primary Health System also utilized the proceeds to pay certain issuance costs and contributed a portion of the bond proceeds in the amount of $1,633,658 to establish a debt service fund.

The Series 2004 bonds were issued on parity, with respect to collateral, with other outstanding bonds, described below. The Series 2004 bonds are also secured by a mortgage on a portion of the Primary Health System's main campus. The Series 2004 bonds mature annually on October 1 beginning in 2010 through 2023 in varying amounts. The Series 2004 bonds maturing after October 1, 2019 (excluding those maturing on October 1, 2023) may be redeemed by the Primary Health System after October 1, 2019 at a redemption price equal to the principal amount plus accrued interest. The bonds maturing on October 1, 2023 may be redeemed prior to maturity pursuant to the extraordinary optional redemption and redemption upon damage or condemnation provisions as described in the Remarketing Memorandum by the Primary Health System after October 1, 2014 at a redemption price equal to 100% of the principal amount plus accrued interest. Interest rates for the outstanding Series 2004 bonds range from 3.0% to 5.0%.

In August 2000, the Primary Health System issued $47,300,000 insured Series 2000 bonds for the purpose of refunding $40,000,000 of then outstanding Series 1987 bonds and funding a debt service reserve fund in an original amount of $4,407,377 and to pay issuance costs. The Series 2000 bonds were issued on parity with other outstanding bond issues. The Series 2000 bonds consist of term bonds maturing on October 1, 2023 and serial bonds maturing on October 1 annually beginning in 2010 through 2025. The bonds maturing on October 1, 2023 are subject to

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE G--LONG-TERM DEBT - Continued

mandatory sinking fund redemption prior to maturity and without premium at the principal amount thereof on October 1. The Series 2000 bonds maturing after October 1, 2014 may be redeemed by the Primary Health System after October 1, 2014 at a redemption price equal to the principal amount plus accrued interest.

Interest rates for the Series 2000 outstanding bonds are as follows:

Series Bonds	- 3.75% to 5.0%
Term Bonds	- 5.0%

The Primary Health System's 1997A and 1998A Hospital Revenue Bonds (Series 1997A and Series 1998A, respectively) were issued to fund capital improvements for Erlanger Medical Center and establish a debt service reserve fund (1998A only) in an original amount of $2,174,125. The Series 1997A bonds are taxable and are secured on a parity under a Master Trust Indenture with other outstanding bond issues. The bonds mature beginning in fiscal year 2015 through fiscal year 2028. The 1997A bonds are subject to optional redemption at 100% plus accrued interest. Interest is payable at a variable auction rate for a 35-day period, which was 0.49% at June 30, 2013 and 0.61% at June 30, 2012.

The Series 1998A insured bonds are tax-exempt and consisted of $6,080,000 serial bonds maturing annually on October 1 of each year through 2013 in varying amounts; and term bonds maturing on October 1, 2018 and 2028 ($5,825,000 and $17,095,000, respectively). Such bonds are secured on parity with other outstanding bonds. The bonds maturing after October 1, 2008 may be redeemed by the Primary Health System after April 1, 2008 at amounts ranging from 100% to 101% of par value plus accrued interest.

Interest rates for the outstanding Series 1998A bonds are as follows:

$ 6,080,000 Serial Bonds	- 4.75% to 5.00%
$ 5,825,000 Term Bonds	- 5.0%
$17,095,000 Term Bonds	- 5.0%

During fiscal year 2002, the Primary Health System defeased $5,320,000 of the 1998A bond issuance because IRS regulations do not permit tax-exempt debenture proceeds to be used to fund for-profit endeavors. These funds were used in the construction of an Ambulatory Surgery Center. The Primary Health System contributed to an escrow account funds generated from its operations sufficient to fund all principal and interest payments for approximately $5,320,000 of debentures until maturity. The Primary Health System was released from being the primary

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE G--LONG-TERM DEBT - Continued

obligor and cannot be held liable for the defeased obligation, of which approximately $4,670,000 remains outstanding at June 30, 2013.

The trust indentures and related documents underlying the bonds contain certain covenants and restrictions. For fiscal years 2013 and 2012, the Primary Health System failed to satisfy the debt service coverage ratio required by one of the bond insurers. As a result of the non-compliance, the Primary Health System will be required to engage a management consultant or obtain a waiver from the bond insurer.

The Primary Health System's scheduled principal and interest payments (estimated for variable rate debt based on rates at June 30, 2013) on bonds payable and other long-term debt (excluding capital leases) are as follows for the years ending June 30:

	Principal	*Interest*	*Total*
2014	$ 7,889,626	$ 6,271,219	$ 14,160,845
2015	10,605,736	5,868,787	16,474,523
2016	11,637,069	5,391,616	17,028,685
2017	11,723,446	4,945,072	16,668,518
2018	12,674,484	4,515,962	17,190,446
2019-2023	68,110,154	14,846,066	82,956,220
2024-2028	45,825,000	2,919,414	48,744,414
2029-2033	2,120,000	53,000	2,173,000
TOTAL	$ 170,585,515	$ 44,811,136	$ 215,396,651

Long-term debt activity for the Primary Health System for the years ended June 30, 2013 and 2012 consisted of the following:

	Balance at June 30, 2011	*Additions/ Amortizations*	*Reductions/ Accretions*	*Balance at June 30, 2012*	*Additions/ Amortizations*	*Reductions/ Accretions*	*Balance at June 30, 2013*
Bonds Payable							
Series 2004	$ 81,373,245	$ 151,904	$ 4,770,828	$ 76,754,321	$ 152,197	$ 4,950,828	$ 71,955,690
Series 2000	38,327,175	-	1,922,960	36,404,215	-	1,822,960	34,581,255
Series 1998A	18,984,847	14,769	140,000	18,859,616	14,769	545,000	18,329,385
Series 1997A	41,000,000	-	-	41,000,000	-	-	41,000,000
Premium paid on advance refunding	(981,127)	85,938	-	(895,189)	85,938	-	(809,251)
Total bonds payable	178,704,140	252,611	6,833,788	172,122,963	252,904	7,318,788	165,057,079

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE G--LONG-TERM DEBT - Continued

	Balance at June 30, 2011	*Additions/ Amortizations*	*Reductions/ Accretions*	*Balance at June 30, 2012*	*Additions/ Amortizations*	*Reductions/ Accretions*	*Balance at June 30, 2013*
Term Loan	6,902,514	-	619,620	6,282,894	-	652,379	5,630,515
Capital leases	343,807	6,616,296	125,436	6,834,667	-	93,463	6,741,204
Total long-term debt	$ 185,950,461	$ 6,868,907	$ 7,578,844	$ 185,240,524	$ 252,904	$ 8,064,630	$ 177,428,798

NOTE H--PENSION PLAN

The Primary Health System sponsors a single-employer, non-contributory defined benefit pension plan covering substantially all employees meeting certain age and service requirements. In addition to normal retirement benefits, the plan also provides for early retirement, delayed retirement, disability and death benefits. The Primary Health System funds the plan as contributions are approved by the Board of Trustees but not in amounts less than the minimum required contribution determined by the plan's consulting actuary. During the years ended June 30, 2013 and 2012, the Primary Health System made contributions of $11,165,100 and $10,367,970, respectively to the plan. The Primary Health System has the right to amend, in whole or in part, any or all of the provisions of the plan. The plan issues a publicly available financial report that includes a financial statement and required supplementary information for the plan. That report may be obtained by writing to Erlanger Health System, Attention: Human Resources Department, 975 East Third Street, Chattanooga, Tennessee 37403 or by calling 423-778-7000.

The annual pension cost and net pension obligation for the years ended June 30, 2013 and 2012 are as follows:

	Primary Health System	
	2013	*2012*
Annual required contribution	$ 11,165,100	$ 10,367,970
Interest on net pension obligation	791,073	798,800
Adjustment to annual required contribution	(899,189)	(901,802)
Annual pension cost	11,056,984	10,264,968
Contributions made	(11,165,100)	(10,367,970)
Change in net pension obligation	(108,116)	(103,002)
Net pension obligation at beginning of year	10,547,623	10,650,625
Net pension obligation at end of year	$ 10,439,507	$ 10,547,623

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE H--PENSION PLAN - Continued

The annual expected contribution for the years ended June 30, 2013 and 2012, was determined as part of the January 1, 2013 and 2012 actuarial valuations, respectively, using the projected unit credit cost method. The following actuarial assumptions were utilized:

	Primary Health System	
	2013	*2012*
Investment rate of return	7.5%	7.5%
Projected salary increases	4.0%	4.0%
Inflation	2.5%	2.5%
Increase in Social Security taxable wage base	3.5%	3.5%

Annual pension costs, contribution information and the net pension obligation for the last three fiscal years follows:

	Three-Year Trend Information		
Fiscal Year Ending	*Annual Pension Cost (APC)*	*Percentage of APC Contributed*	*Net Pension Obligation*
June 30, 2011	$ 8,831,554	100%	$ 10,650,625
June 30, 2012	10,264,968	101%	10,547,623
June 30, 2013	11,056,984	101%	10,439,507

The schedule of funding progress shown below presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The actuarial asset values are determined using prior year valuations with the addition of current year contributions and expected investment return on market value of assets based on an assumed rate of 7.5%, and deducting benefit payments and administrative expenses for the year. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments using an average of cost and market value. The plan will reset the amortization base each year equal to the unfunded actuarial accrued liability to be amortized over a closed 20 year period (30 years in 2012 and prior periods) and using a level dollar amount as the amortization factor.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE H--PENSION PLAN - Continued

Schedule of Funding Progress

Actuarial Valuation Date	*Actuarial Value of Assets*	*Actuarial Accrued Liability (AAL)*	*Total Unfunded AAL (UAAL)*	*Funded Ratio %*	*Annual Covered Payroll*	*UAAL as a Percentage of Covered Payroll*
1/1/11	$125,335,932	$ 150,926,741	$25,590,809	83.0%	$ 147,947,134	17.3%
1/1/12	124,520,999	160,704,688	36,183,689	77.5%	138,807,819	26.1%
1/1/13	121,700,323	170,980,311	49,279,988	71.2%	121,093,695	40.7%

Effective July 1, 2009, the Chattanooga-Hamilton County Hospital Authority Pension Plan was amended to be closed to new employees or rehires, and to further clarify the maximum years of service to be 30. The benefits of current employees will be protected and they will continue to participate in, and accrue services under, the Plan.

NOTE I--OTHER RETIREMENT PLANS

The Primary Health System maintains defined contribution plans under Section 403(b) and 401(a) of the IRC which provides for voluntary contributions by employees. The Plans are for the benefit of all employees 25 years of age or older with at least 12 months of employment.

The Primary Health System matches 50% of each participant's contribution up to 2% of the participant's earnings. Additionally, for eligible employees hired on after July 1, 2009 the Primary Health System will make profit sharing contributions equal to 3% of their earnings, regardless if the employee is making contributions. Employer contributions to the plan were $1,826,075 and $1,765,972 for the years ended June 30, 2013 and 2012, respectively.

NOTE J--POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Primary Health System sponsors three defined benefit postretirement plans, other than pensions, for full-time employees who have reached retirement age, as defined. The respective plans provide medical, dental, prescription drug and life insurance benefits, along with a lump-sum cash payment for one-half of the hours in the participant's extended illness benefit bank at retirement. The postretirement health, dental and prescription drug plan is contributory and contains other cost-sharing features, such as deductibles and coinsurance. The life insurance plan and the extended illness bank are noncontributory.

The Primary Health System reports other postemployment benefits in accordance with the GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment*

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE J--POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Continued

Benefits Other Than Pensions. This Statement addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. This Statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time.

Beginning in 2018, under the Patient Protection and Affordable Care Act (the Act), a 40% excise tax will be imposed on the excess benefit provided to an employee or retiree in any month under any employer-sponsored health plan. In the case of a self-insured plan, the plan administrator must pay the tax. Because of the significant uncertainties regarding the excise tax on high cost plans, management of the Primary Health System is evaluating the impact of this Act but does not anticipate a material impact on the accrued liability at this time; however, actual results could differ from these estimates.

The following table shows the plan's funded status as of the actuarial valuation date as of June 30:

	2013	*2012*
Actuarial accrued liability	$ 30,500,450	$ 28,788,147
Market value of assets	-	-
Unfunded actuarial accrued liability	$ 30,500,450	$ 28,788,147

The following is a summary of the components of the annual OPEB cost recognized by the Primary Health System for the years ended June 30:

	2013	*2012*
Annual required contribution	$ 2,945,355	$ 2,659,068
Interest on the net obligation	228,288	163,912
Amortization of net obligation	(226,809)	(156,587)
OPEB cost recognized	$ 2,946,834	$ 2,666,393

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE J--POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Continued

Reconciliation of the net OPEB obligation for the fiscal years ended June 30:

	2013	*2012*
Net OPEB obligation beginning of the year	$ 5,707,193	$ 4,097,800
OPEB cost recognized	2,946,834	2,666,393
Actual contributions	(1,687,482)	(1,057,000)
Net OPEB obligation end of the year	$ 6,966,545	$ 5,707,193

Trend Information

Fiscal Year Ending	*Annual OPEB Cost*	*Percentage of Annual OPEB Cost Contributed*	*Net OPEB Obligation at the End of Year*
June 30, 2011	$ 2,508,668	32.7%	$ 4,097,800
June 30, 2012	2,666,393	39.6%	5,707,193
June 30, 2013	2,946,834	57.3%	6,966,545

Schedule of Funding Progress

Actuarial Valuation Date	*Actuerial Value of Assets*	*Actuarial Accrued Liability*	*Unfunded Actuarial Accrued Liability*	*Annual Covered Payroll*	*Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll*	*Funded Ratio*
June 30, 2011	$ -	$ 24,966,769	$ 24,966,769	$147,947,134	16.9%	0%
June 30, 2012	-	28,788,147	28,788,147	138,807,819	20.7%	0%
June 30, 2013	-	30,500,450	30,500,450	155,727,806	19.6%	0%

The actuarial calculations reflect a long term perspective. Accordingly, the actuarial valuation involves estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability. The calculations are based on the benefits currently provided under the terms of the plan as of the date of each valuation and on the sharing of cost between employer and plan members at that point.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE J--POSTRETIREMENT BENEFITS OTHER THAN PENSIONS - Continued

The actuarial cost method utilized is the unit credit actuarial cost method. The 2013 postretirement benefit cost assumed an average weighted annual rate increase in per capita cost of covered health benefits of 7.4%, decreasing gradually to an ultimate rate of 4.8%. The 2012 postretirement benefit cost assumed an average weighted annual rate increase in per capita cost of covered health benefits of 9.6%, decreasing gradually to an ultimate rate of 4.6%.

The amortization method used is the level percent of payroll method over a thirty year amortization. Other assumptions include a 4% discount rate and assumed salary increases of 4.0% annually until age 65. The plan is currently open.

The Primary Health System also has a job injury program to provide benefits to workers injured in employment-related accidents. This program provides medical and indemnity benefits to employees injured in the course of employment for a period up to 24 months from the date of injury. The Primary Health System has recorded a projected liability of approximately $1,253,000 and $916,000 at June 30, 2013 and 2012, respectively. Such amounts are included as a part of other long-term liabilities in the combined statements of net position. The projected liability was discounted using a 4% rate of return at June 30, 2013 and 2012.

NOTE K--MEDICAL MALPRACTICE AND GENERAL LIABILITY CLAIMS

As of January 1, 1976, the Primary Health 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 Primary Health System's Self-Insurance Trust Agreement (the 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 Primary Health System. The Primary Health System is funding actuarial estimated liabilities through a revocable trust fund with a bank included as a part of Assets Limited as to Use in the accompanying combined statements of net position. Such amounts in the trust can be withdrawn by the Primary Health System only to the extent there is an actuarially determined excess. 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 actuary. Losses against the Primary Health 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 occurrence or $700,000 in the aggregate. However, claims against healthcare practitioners are not subject to the foregoing limits applicable to the Primary Health System. Any such individuals employed by the Primary Health System, excluding employed physicians for which the Primary Health System has purchased insurance coverage, are covered by the Trust to the limits set forth therein.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE K--MEDICAL MALPRACTICE AND GENERAL LIABILITY CLAIMS - Continued

In the opinion of management, the revocable trust fund assets are adequate at June 30, 2013, to cover potential liability and malpractice claims and expenses that may have been incurred to that date.

The Primary Health 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 reserve for estimated losses and loss adjustment expense (LAE) at June 30, 2013 and 2012, respectively, is adequate to cover potential liability and malpractice claims which may have been incurred but not reported (IBNR) to the Primary Health System. Such reserve for IBNR claims reflect a discount rate of 5.5% based on the Primary Health System's expected investment return during the payout period.

The following is a reconciliation of changes in the estimated losses and LAE that have been recognized in the combined financial statements for the years ended June 30, 2013 and 2012:

	Primary Health System	
	2013	*2012*
Reserve for losses and LAE at beginning of year	$ 5,462,500	$ 5,085,000
Provision for claims	178,439	1,203,977
Payments on claims	(655,939)	(826,477)
Reserve for losses and LAE at end of year	$ 4,985,000	$ 5,462,500

NOTE L--COMMITMENTS AND CONTINGENCIES

Litigation: The Primary Health System is subject to claims and suits which arise in the ordinary course of business. In the opinion of management, the ultimate resolution of such pending legal proceedings has been adequately provided for in its combined financial statements, and will not have a material effect on the Primary Health System's results of operations or financial position.

The prior Chief Executive Officer (CEO) resigned from Erlanger on December 31, 2011, after an interim CEO (the Executive Vice President) was established December 1, 2011. The interim CEO was replaced by the current CEO, hired on April 1, 2013. The Executive Vice President's employment at Erlanger ended when her leave expired in June, 2013. She has filed a wrongful termination lawsuit against Erlanger for $25 million, which Erlanger, in conjunction with its Directors & Officers insurance carrier, is currently defending. The ultimate outcome of this lawsuit is uncertain.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE L--COMMITMENTS AND CONTINGENCIES - Continued

Management Agreement: During 2012, the Primary Health System entered into a Management Agreement with a third party related to Plaza. The Agreement is for an initial term of five years (subject to one three-year renewal). The Agreement requires annual payments of $180,000 and reimbursement of defined expenses.

Health Care Reform: In March 2010, Congress adopted comprehensive healthcare insurance legislation, Patient Care Protection and Affordable Care Act and Health Care and Education Reconciliation Act. The legislation, among other matters, is designated to expand access to coverage to substantively all citizens by 2019 through a combination of public program expansion and private industry health insurance. Changes to existing TennCare and Medicaid coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required for these legislative acts, which are to be adopted over a period of years and, accordingly, the specific impact of any future regulations is not determinable.

NOTE M--LEASES

Capital: As discussed in Note E, during 2012, the Primary Health System entered into a sale/leaseback arrangement, under which certain leases of office space meet the criteria as capital leases. Interest on these leases has been estimated at 7% per annum.

During 2011, the Primary Health System acquired a parcel of land from the Industrial Development Board of the City of Chattanooga, Tennessee for a nominal amount. The Primary Health System also entered into a project development agreement with a developer to facilitate final design, financing and construction of a medical office building for the benefit of Volkswagen Group of America Chattanooga Operations, LLC (Volkswagen) on this land. The Primary Health System has entered into a forty year ground lease, with the option of two ten year renewal terms, of the parcel to the developer. Additionally, in 2012, the Primary Health System has entered into a twenty year lease with the developer for certain space in the medical office building for a wellness center and other operations under a capital lease agreement.

The following is an analysis of the property under capital leases by major classes at June 30:

	Primary Health System	
	2013	*2012*
Buildings	$ 6,601,812	$ 6,597,396
Equipment	494,905	323,765
	7,096,717	6,921,161
Less: accumulated amortization	(593,019)	(159,961)
	$ 6,503,698	$ 6,761,200

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE M--LEASES - Continued

The following is a schedule of future minimum lease payments under capital leases at June 30, 2013:

Year Ending June 30,	
2014	$ 845,820
2015	702,264
2016	715,938
2017	729,998
2018	744,472
2019-2023	3,827,865
2024-2028	3,693,101
2029-2033	2,760,506
Total minimum lease payments	14,019,964
Less: amount representing interest	(7,278,760)
Present value of minimum lease payments (including current portion of $140,579)	$ 6,741,204

Operating: The Primary Health System rents office space and office equipment under non-cancelable operating leases through 2033, containing various lease terms. The leases have other various provisions, including sharing of certain executory costs. Rent expense under operating leases was approximately $7,450,000 and $6,130,000 in 2013 and 2012, respectively. Future minimum lease commitments at June 30, 2013 for all non-cancelable leases with terms in excess of one year are as follows:

Year Ending June 30,	
2014	$ 6,393,113
2015	4,151,854
2016	2,644,970
2017	2,603,297
2018	2,305,727
Thereafter	19,292,193
	$ 37,391,154

Rental Revenues: The Primary Health System leases office space to physicians and others under various lease agreements with terms in excess of one year. Rental revenue recognized for the

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE M--LEASES - Continued

years ended June 30, 2013 and 2012 totaled approximately $4,261,000 and $6,043,000, respectively. The following is a schedule of future minimum lease payments to be received for the years ending June 30:

Year Ending June 30,	
2014	$ 1,214,205
2015	874,495
2016	198,910
2017	122,057
2018	7,116
Thereafter	-
	$ 2,416,783

NOTE N--DERIVATIVE FINANCIAL INSTRUMENTS

Simultaneous with the issuance of the $85,000,000 Series 2004 bonds discussed in Note G, the Primary Health System entered into interest rate swap agreements. In an effort to take advantage of the differences between taxable and tax-exempt debt, and manage exposure to interest rate risks associated with various debt instruments, the Primary Health System was a party to three distinct interest rate swap agreements with Lehman Brothers Special Financing, Inc. (Lehman).

In 2012, the Primary Health System entered into a novation agreement whereby Lehman transferred its rights and obligations under the interest rate swaps to another party. The terms of the interest rate swap agreements did not substantially change and no gain or loss was recognized on this transfer.

With respect to the Series 2004 bonds, the Primary Health System executed a swap where the Primary Health System receives a variable rate equal to 67% of the one-month LIBOR-BBA rate and pays a fixed rate of 3% on a notional amount of $7,150,000 at June 30, 2013. Unless terminated at an earlier date (at the Primary Health System's option), this agreement terminates on October 1, 2013.

With respect to the 1997A Series bonds, the Primary Health System executed a swap agreement whereby the Primary Health System receives a variable rate equal to the one-month LIBOR-BBA rate and pays a fixed rate equal to 5.087% on a notional amount of $41,000,000. Unless terminated at an earlier date (at the Primary Health System's option), this agreement terminates on October 1, 2027.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE N--DERIVATIVE FINANCIAL INSTRUMENTS - Continued

With respect to the 1998A Series bonds, the Primary Health System executed a swap agreement whereby the Primary Health System receives a fixed rate of 3.932% and pays a variable rate equal to the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index on a notional amount of $16,305,000. Unless terminated at an earlier date (at the Primary Health System's option), this agreement terminates on October 1, 2027.

Although these swap instruments are intended to manage exposure to interest rate risks associated with the various debt instruments referred to above, none of these swap agreements have been determined to be effective hedges. Accordingly, the interest rate swaps are reflected in the accompanying combined statements of net position at their aggregate fair value (a net liability of $4,856,429 and $7,112,464 at June 30, 2013 and 2012, respectively) and the changes in the value of the swaps are reflected as a component of non-operating revenues in the combined statements of revenue, expenses and changes in net position.

Management has considered the effects of any credit value adjustment and while management believes the estimated fair value of the interest rate swap agreements is reasonable, the estimate is subject to change in the near term.

NOTE O--FAIR VALUE MEASUREMENT

FASB ASC 820, *Fair Value Measurements and Disclosures,* establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities.
- Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Primary Health System's own assumptions.

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Primary Health System's assessment of the

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE O–FAIR VALUE MEASUREMENT - Continued

significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following tables present assets and liabilities reported at fair value as of June 30, 2013 and 2012 and their respective classification under the FASB ASC 820 valuation hierarchy:

	Carrying Value	*Level 1*	*Level 2*	*Level 3*
As of June 30, 2013				
Assets Measured at Fair Value on a Recurring Basis				
Investment in government and agency bonds, including municipal bonds, mutual funds and others	$ 111,569,814	$ 111,569,814	$ -	$ -
Investments in corporate bonds and commercial paper	4,348,798	4,348,798	-	-
Short-term investments and cash equivalents	29,929,179	29,929,179	-	-
Liabilities Measured at Fair Value on a Recurring Basis				
Interest rate swap agreements	(4,856,429)	-	-	(4,856,429)
As of June 30, 2012				
Assets Measured at Fair Value on a Recurring Basis				
Investment in government and agency bonds, including municipal bonds, mutual funds and others	$ 119,596,675	$ 119,596,675	$ -	$ -
Investments in corporate bonds and commercial paper	940,586	940,586	-	-
Short-term investments and cash equivalents	32,688,220	32,688,220	-	-
Liabilities Measured at Fair Value on a Recurring Basis				
Interest rate swap agreements	(7,112,464)	-	-	(7,112,464)

A certain portion of the inputs used to value the Primary Health System interest rate swap agreements are unobservable inputs available to a market participant. As a result, the Primary Health System has determined that the interest rate swap valuations are classified in Level 3 of the fair value hierarchy.

The following table provides a summary of changes in the fair value of the Primary Health System's interest rate swap agreements liabilities during the fiscal year ended June 30:

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE O--FAIR VALUE MEASUREMENT - Continued

	2013	2012
Beginning of year	$ (7,112,464)	$ (6,032,288)
Change in mark-to-market of interest rate swaps	2,256,035	(1,080,176)
End of Year	$ (4,856,429)	$ (7,112,464)

NOTE P--MANAGEMENT AGREEMENT

On April 13, 2011, the Primary Health System's Board of Trustees approved a resolution authorizing a management agreement (the Agreement) between the Primary Health System, Hutcheson Medical Center, Inc. and affiliates (collectively, Hutcheson) and the Hospital Authority of Walker, Dade and Catoosa Counties in Georgia (the Hospital Authority).

Under the terms of the Agreement, the Primary Health System will propose general operating policies and directives for Hutcheson; be responsible for the day-to-day management of Hutcheson and provide oversight of ancillary aspects of Hutcheson, such as physician practices, education, research, and clinical services. The Agreement's initial term is through March 31, 2021 and the Primary Health System has the option to extend the agreement for two additional five year terms. The Primary Health System may terminate the Agreement, without cause, upon written notice at any point subsequent to May 25, 2013. Upon such termination, Hutcheson is obligated to make a Termination Payment to the Primary Health System consisting of all expenses then owed by Hutcheson and any outstanding advances under a Line of Credit Agreement, discussed below. Hutcheson may also terminate the agreement without cause at any point subsequent to May 25, 2013 by paying the Termination Payment, as well as the lesser of a) $1,000,000 per year for each year the Agreement has been in place, or b) $1,000,000 less any management fees paid in each Agreement year.

In addition to the Agreement, the Primary Health System agreed to extend a Line of Credit (the Line) to the Hospital Authority. The maximum amount available under the Line is $20,000,000 at June 30, 2012. During the year ended June 30, 2013 The Agreement was amended to increase the maximum amount to $20,550,000. At June 30, 2013 and 2012, the draws on the Line totaled $20,550,000 and $12,500,000, respectively.

The Line calls for interest only payments each month on the outstanding balance, based on the London InterBank Offered Rate plus 4% or a rate of 5%, whichever is greater. However, any unpaid interest through March 31, 2013 is deferred and paid over a twelve-month period commencing on that date. All outstanding draws are due at the maturity date, which is consistent with the Agreement termination dates, discussed above.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE P--MANAGEMENT AGREEMENT - Continued

The Line is secured by a Security Agreement on the primary Hutcheson medical campus. Further, the Counties of Walker and Catoosa, Georgia (collectively, the Counties) have provided additional security in the form of guarantees under an Intergovernmental Agreement. Under the Intergovernmental Agreement, the Counties have each agreed to a maximum liability of $10,000,000 to secure the line. The form of such guarantee is at the option of the Counties and would become enforceable upon a notice of default delivered by the Primary Health System. The form of the guarantee selected by the Counties can include a) a payment of 50% by each County of the amounts owing under the Line, b) payments as they become due up to the respective $10,000,000 limits or c) after non-Judicial foreclosure under the Security Agreement, each County could elect to pay 50% of any deficiency between the amount outstanding under the Line and the then fair market value. Both Counties have agreed to levy annual property taxes, if needed to honor these guarantees.

In June 2013, the Agreement was modified to allow Hutcheson to issue requests for proposals for the lease or sale of Hutcheson properties without creating a breach of the Agreement. As part of the Agreement, Hutcheson has committed to obtain alternative financing and repay the line of credit upon the earlier of the replacement financing being obtained by Hutcheson, or June 1, 2014. As such the line of credit is classified as a current asset as of June 30, 2013.

NOTE Q--COMBINED, CONDENSED FINANCIAL INFORMATION

The following is combined, condensed, financial information related to those aggregate discretely presented component units as of and for the years ended June 30, 2013 and 2012:

	ContinuCare HealthServices, Inc.	*Cyberknife of Chattanooga, LLC*
As of June 30, 2013		
Due from other governments	$ 248,239	$ 129,000
Other current assets	8,865,703	490,008
Total Current Assets	9,113,942	619,008
Net property, plant and equipment	5,174,936	4,468,880
Other assets	2,383,609	75,309
Total Assets	$ 16,672,487	$ 5,163,197

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE Q--COMBINED, CONDENSED FINANCIAL INFORMATION - Continued

	ContinuCare HealthServices, Inc.	*Cyberknife of Chattanooga, LLC*
Due to other governments	$ 408,032	$ 120,000
Other current liabilities	3,035,595	788,584
Total Current Liabilities	3,443,627	908,584
Long-term debt and capital lease obligations	29,292	3,416,667
Total Liabilities	3,472,919	4,325,251
Net position		
Unrestricted	8,110,622	210,424
Invested in capital assets, net of related debt	5,088,946	627,522
Restricted expendable	-	-
Total Net Position	13,199,568	837,946
Total Liabilities and Net Position	$ 16,672,487	$ 5,163,197
Year Ended June 30, 2013		
Net patient and operating revenue	$ 26,026,863	$ 1,560,900
Operating expenses:		
Salaries, wages and benefits	13,395,486	211,954
Supplies and other expenses	9,715,354	484,205
Purchased services	2,914,446	66,602
Insurance and taxes	267,877	27,459
Depreciation	517,483	527,752
Total Operating Expenses	26,810,646	1,317,972
Operating Income	(783,783)	242,928
Nonoperating revenue (expenses)	497,259	(194,623)
Change in Net Position	(286,524)	48,305
Net Position at Beginning of Period	13,486,092	789,641
Net Position at End of Period	$ 13,199,568	$ 837,946

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE Q--COMBINED, CONDENSED FINANCIAL INFORMATION - Continued

	ContinuCare HealthServices, Inc.	*Cyberknife of Chattanooga, LLC*
As of June 30, 2012		
Due from other governments	$ 234,872	$ 266,600
Other current assets	7,984,697	270,923
Total Current Assets	8,219,569	537,523
Net property, plant and equipment	4,916,085	4,967,921
Other assets	3,664,684	75,309
Total Assets	$ 16,800,338	$ 5,580,753
Due to other governments	$ 779,987	$ 125,842
Other current liabilities	2,534,259	748,603
Total Current Liabilities	3,314,246	874,445
Long-term debt and capital lease obligations	-	3,916,667
Total Liabilities	3,314,246	4,791,112
Net position		
Unrestricted	8,570,007	163,078
Invested in capital assets, net of related debt	4,916,085	626,563
Total Net Position	13,486,092	789,641
Total Liabilities and Net Position	$ 16,800,338	$ 5,580,753
Year Ended June 30, 2012		
Net patient and operating revenue	$ 26,434,498	$ 1,595,300
Operating expenses:		
Salaries, wages and benefits	12,898,683	202,693
Supplies and other expenses	10,146,545	307,497
Purchased services	2,609,813	178,764
Insurance and taxes	259,226	107,290
Depreciation	327,769	521,106
Total Operating Expenses	26,242,036	1,317,350
Operating Income	192,462	277,950

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2013 and 2012

NOTE Q--COMBINED, CONDENSED FINANCIAL INFORMATION - Continued

	ContinuCare HealthServices, Inc.	*Cyberknife of Chattanooga, LLC*
Nonoperating revenue (expenses)	(50,099)	(217,734)
Change in Net Position	142,363	60,216
Net Position at Beginning of Period	13,343,729	729,425
Net Position at End of Period	$ 13,486,092	$ 789,641

COPY-SUPPLEMENTAL-1

Erlanger Medical center
CN1409-038

SUPPLEMENTAL- 1

September 26, 2014
11:40am

SUPPLEMENTAL INFORMATION

Chattanooga-Hamilton County Hospital Authority

D / B / A

Erlanger Medical Center

Application For

Magnetic Resonance Imaging (Tesla 3.0)

On The Main Campus Of
Erlanger Health System

Application Number CN1409-038

September 26, 2014

ERLANGER HEALTH SYSTEM
Chattanooga, Tennessee

SUPPLEMENTAL- 1

September 26, 2014
11:40am

Supplemental Responses To Questions Of The Tennessee Health Services & Development Agency

1.) Section A, Applicant Profile, Item 2.

Please note the association of the contact person with the owner.

Response

Joseph Winick is a corporate officer and Senior Vice President of *Chattanooga-Hamilton County Hospital Authority* D/B/A *Erlanger Health System*, responsible for Strategic Planning & Business Development.

2.) Section A, Applicant Profile, Item 5 (Management/Operating Entity).

Please provide a copy of the management/operating agreement. If the applicant will be managing itself, please provide a replacement noting N/A as the response.

Response

Applicant will manage itself, a replacement page is attached to this supplemental information.

3.) Section A, Applicant Profile, Item 6.

The Agency will need a deed, a purchase agreement, lease agreement, option to lease or other legal document which demonstrates the applicant has a legitimate legal interest in the property on which to locate the project.

Response

A copy of the Quit Claim Deed pertaining to *Erlanger Medical Center's* main campus is attached to this supplemental information.

4.) Section A, Applicant Profile, Item 13.

The applicants contract with United Health Plan is noted. However, please clarify why the applicant does not have a contract with United Healthcare Community Plan for TennCare enrollee's over the age of 21.

New TennCare Managed Care contracts with the Bureau of TennCare will take effect January 1, 2015, with full statewide implementation for AmeriGroup, BlueCare Tenessee and united Healthcare. Please indicate the stages of contract discussions with each MCO for these new contracts.

Response

Concerning the question pertaining to *United Healthcare Community Plan* for TennCare enrollee's over the age of 21, negotiations were not successful because agreement could not be reached regarding reasonable rates for adults. However, these patients still have access to Erlanger medical Center even in the absence of an agreement.

We have contracts with *AmeriGroup* and *BlueCare Tennessee*, these agreements are being updated. Further, we are currently in negotiation with *United Healthcare Community Plan* pertaining to a full service contract.

5.) Section B, Item 2 (Project Description).

Please provide a brief description of the following: proposed services and equipment, ownership structure, service area, need, existing resources, project cost, funding, financial feasibility and staffing. Please list each area and provide a brief response underneath.

Response

Proposed Services & Equipment

Erlanger Medical Center seeks to acquire a 3.0 Tesla MRI Unit.

Ownership Structure

The *Chattanooga-Hamilton County Hospital Authority* is a governmental unit of the *State of Tennessee*, created

by a private act of the *Tennessee General Assembly* in 1976. The hospital authority does business under the trade names of *Erlanger Health System* and *Erlanger Medical Center*, among others. As a governmental unit, there are no "owners" per se, other than the people and general public of the *State of Tennessee*.

Service Area

The service area for this project is defined as Hamilton County, Tennessee (Primary), and the 10 counties in Tennessee which surround Hamilton County which comprise the Secondary Service Area … Bradley, Marion, Grundy, Sequatchie, Bledsoe, Rhea, Meigs, McMinn and Polk.

Need

Erlanger Medical Center has a need to acquire a 3.0 Tesla MRI unit because current utilization of our 3 other MRI units operated at 34% higher than optimal capacity of 2,880 procedures (i.e.-80% threshold). We have had to add a 3rd shift in the MRI dept. to accmmodate our increased demand. Further, 3.0 Tesla MRI technology is becoming the standard of care for MR imaging.

Existing Resources

There are currently 3 other 3.0 Tesla units (*Memorial Hospital, Memorial Ooltewah Imaging Center and Chattanooga O/P Center*). Also, *Parkridge Medical Center* currently has a CON application pending for a 3.0 Tesla unit.

Project Cost

The estimated project cost (per *HSDA* rules) is $ 4,597,711.

Funding

The funding for this project will be provided from operations of *Erlanger Medical Center*.

Financial Feasibility

This project is financially feasible as demonstrated by the *Projected Data Chart*, which shows a positive financial result of $ 498,891 in year 1 and $ 863,149 in year 2.

Staffing

Staffing for the 3.0 Tesla MRI unit will be 1.5 additional Radiologic Technologists.

6.) Section B, Project Description, Item 2C.

The applicant states on July 2, 2014, a 3rd shift (night shift) was implemented in the MRI department. Please clarify the hours of the night shift. In July and August, 2014, how many MRI scans were conducted during the following shifts ?

7am - 3 pm _____
3pm - 11pm _____
11pm - 7 am _____

The applicant states in 2013, 759 patients that required 3.0 Tesla Imaging were referred for services. Please indicate where these patients were referred.

Response

The number of MRI scans for July and August, 2014, by shift are as follows:

7 a.m. - 3 p.m.	865
3 p.m. - 11 p.m.	798
11 p.m. - 7 a.m.	240

The 3.0 Tesla MRI patients were referred to *Chattanooga Outpatient Center* and *Memorial Hospital*.

7.) Section B, Project Description, Item 2E - 1.b and 1.3.

The hours of operation for the existing 3 MRIs and the proposed 3T MRI is noted. However, please clarify why the 3T MRI will not be open from 7 am-8 am and 8 pm-11 pm Mon-Sat, and not open on Sundays. During those times and from 11 pm to 7 am, where will patients who need 3T MRI services be referred ?

It is noted the applicant will purchase the 3T MRI. However, please itemize the $3,013,702 cost for fixed equipment in the Project Costs Chart. This amount is not found in the Equipment Quote found in Attachment A-59.

The applicant indicates the clinical applications for proposed 3.0 Tesla MRI include: Neurological Imaging, Orthopedic Imaging, and Pediatric Imaging. Please discuss the clinical advantages of images acquired by a 3.0 Tesla MRI vs. a 1.5 Tesla MRI in each of the above specialty areas.

Response

The hours of operation are for start-up of this specific service and will be adjusted as needed. Any patient needing a specific 3.0 Tesla MRI scan during the night shift can be accommodated with on-call staffing as needed.

Pertaining to the clinical advantages of this technology, Steven Quafordt, M.D., one of the Radiologists on the medical staff for *Erlanger Medical Center*, has provided information indicating that 3.0 Tesla imaging has significantly enhanced sensitivity for detecting a wide range of lesions, faster acquisition time to reduce motion artifact, as well as improved image clarity for small pathology such as aneurysms and joint disease. The 3.0 Tesla imaging also eliminates the need for an endo-rectal coil for prostate imaging, thereby increasing patient satisfaction and reducing risk associated with coil insertion. Pediatric patients under anesthesia will have a decrease in scan time reducing the amount of time spent under anesthesia, thus reducing motion artifact and improved image quality. MRA (i.e.-MR Angiography) studies have a 20% improvement in image clarity with a 3.0 Tesla MRI unit. Also, the addition of image diffusion is made possible by the 3.0 Tesla MRI unit.

8.) Section B, Item 2 (Floor Plan).

The floor plan is noted. However, please note the location of the proposed 3T MRI on the floor plan and resubmit.

Response

An updated floor showing the location of the 3.0 Tesla MRI unit is attached to this supplemental information.

9.) Section C, Item 1 (Specific Criteria, Magnetic Resonance Imaging(1.a)).

The applicant states a 3.0 Tesla MRI is becoming the standard of care in imaging in Orthopedics, Neurology, and Pediatrics. Please provide documentation to verify that statement.

The proposed 3T MRI projected volume includes reallocation from the other three MRI's due to over capacity. The reallocation ranges from 665 in Year 1 to 950 in Year 2. Please clarify if the allocation cases would be the most clinically appropriate for a 3T MRI.

After the relocation from the 3 existing MRIs to the proposed 3T MRI, please complete the following table:

Projected Volume

	Year One	Year Two	Year Three
MRI#1			
MRI #2			
MRI #3			
Proposed 3T			
Total			

Response

Steven Quafordt, M.D., one of the Radiologists on the medical staff for *Erlanger Medical Center*, has provided information indicating that 3.0 Tesla imaging has significantly enhanced sensitivity for detecting a wide range of lesions, faster acquisition time to reduce motion artifact, as well as improved image clarity for small pathology such as aneurysms and joint disease. The 3.0 Tesla imaging also eliminates the need for an endo-rectal coil for prostate imaging, thereby increasing patient satisfaction and reducing risk associated with coil insertion. Pediatric patients under anesthesia will have a decrease in scan time reducing the amount of time spent under anesthesia, thus reducing motion artifact and improved image quality. MRA (i.e.-MR Angiography) studies have a 20% improvement in image clarity with a 3.0 Tesla MRI unit. Also, the addition of image diffusion is made possible by the 3.0 Tesla MRI unit.

Concerning clinical appropriateness of re-allocating some patients to the 3.0 Tesla unit from a 1.5 Tesla unit, applicant acknowledges that this will occur; however, there may also be other clinical considerations involved with performing MRI scans on inpatients during the 3rd shift when they should be resting. We see this dynamic as resolving itself over time as 3.0 Tesla technology becomes the predominant standard of care and the 1.5 Tesla units are replaced with 3.0 Tesla units.

As requested, the projected utilization by MRI unit is below.

EMC – MRI Utilization Forecast

	Year 1	Year 2	Year 3
MRI Unit 1	3,701	3,612	3,690
MRI Unit 2	3,290	3,211	3,280
MRI Unit 3	3,290	3,211	3,280
Sub-Total	10,281	10,034	10,250
Proposed 3.0 Tesla MRI Unit	2,350	2,975	3,150
Total	12,631	13,009	13,400

10.) Section C, Need, Item 1 (Specific Criteria, Magnetic Resonance Imaging(2)).

The applicant notes the Georgia Dept. of Community Health does not maintain data for MRI units. Please provide the location of MRI units in the applicants Northwest Georgia service area.

Response

The location of the MRI units in northwest Georgia are as follows.

Hutcheson Medical Center
100 Gross Crescent Circle
Fort Oglethorpe, GA 30742

Battlefield Imaging
4700 Battlefield Parkway, Ste. 100
Ringgold, GA 30736

11.) Section C, Need, Item 1 (Specific Criteria, Magnetic Resonance Imaging(3)).

Please indicate if there is a waiting list for 3T appointments. In general, what is the wait time for an MRI at Erlanger ?

Response

We do not have precise information on this because we do not have a 3.0 Tesla MRI unit. However, generally speaking, we understand that these patients can be scheduled within 2-3 days. At *Erlanger Medical Center*, the average MRI patient wait time is about 2 weeks.

12.) Section C, Need, Item 1 (Specific Criteria, Magnetic Resonance Imaging(4)).

The chart of MRI utilization in Southeast Tennessee is noted. However, please revise the chart to include the Tesla strength of each MRI in the proposed service area and provide a replacement page for page 34.

Response

An updated page 34 is attached to this supplemental information.

13.) Section C, Need, Item 1 (Specific Criteria, Magnetic Resonance Imaging(7.b)).

The letter from the architect is noted. However, please submit a revised letter that demonstrates the proposed MRI will meet applicable federal standards, manufacturer specifications and licensing agencies' requirements.

Response

A revised architect letter is attached to this supplemental information.

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14.) Section C, Need, Item 1 (Specific Criteria, Magnetic Resonance Imaging(7.g)) and Orderly Development, Item 1.

The list of transfer agreements in Attachments A-21 through A-24 is noted. However, the list is out of date and is expired. Please provide a current list.

Response

An updated list of patient transfer agreements is attached to this supplemental information.

15.) Section C, Need, Item 3.

The county level map of the applicant's service area is noted. However, please submit a revised map that provides legible county names. In addition, please label Georgia service area counties.

Response

A revised map is attached to this supplemental information.

16.) Section C, Item 1 (Need) and Section C, Item 5.

The table of primary acute hospital general utilization trends in the service area is noted. However, since the applicant is applying for a 3T MRI, please provide utilization for each of the most recent three years of data available for MRIs in the proposed service area.

If applicable, please describe any approved but unimplemented CONs for MRI services in the proposed service area.

Response

A table of the 3 year trend for MRI utilization is attached to this supplemental information.

Please note that *Parkridge Medical Center* currently has a CON application pending before the *Agency* for a 3.0 Tesla MRI Unit.

17.) Section C, Item 1 (Need) and Section C, Item 6 (Applicant's Utilization).

The general utilization for Erlanger Medical Center is noted. However, please respond to the question specific to MRI services.

Response

The utilization trend for MRI services at *Erlanger Medical Center* is as follows.

CY	Utilization	% Increase
2011	10,730	
2012	10,915	1.7%
2013	11,558	5.9%
2014	11,905	3.0%
2015	12,262	3.0%
2016	12,630	3.0%
2017	13,009	3.0%

18.) Section C, Item 4, Need.

Your response to this item is noted. Please complete the following chart. All the information requested can be obtained from the Department of Health population projections, TennCare website and U.S. Census website.

Demographic /Geographic Area	Bledsoe	Bradley	Grundy	Hamilton	Marion	MCMinn	Meigs	Polk	Rhea	Sequatchie	Primary Service	State of TN
Total Population-Current Year -2014												
Total Population-Projected Year -2018												
Total Population-% change												

Median Age												
Median Household Income												
TennCare Enrollees												
TennCare Enrollees as % of Total Pop.												
Persons Below Poverty Level												
Persons Below Poverty Level as % of Total												

Response

The demographic table is below.

	Bledsoe	Bradley	Grundy	Hamilton	Marion
Total Pop. - 2014	12,641	103,308	13,355	347,451	28,556
Total Pop. - 2018	12,599	107,481	13,293	353,577	28,992
Total Pop. - % Change	-0.3%	4.0%	-0.5%	1.8%	1.5%
Median Age	41	38	38	38	42
Median Household Income	$31,888	$40,614	$26,644	$46,544	$39,817
TennCare Enrollees	2,890	18,850	4,443	57,298	6,198
TennCare Enrollees As % Of Total Pop.	22.9%	18.2%	33.3%	16.5%	21.7%
Persons Below Poverty Level	2,920	18,389	3,873	56,287	5,483
Persons Below Poverty Level As % Of Total Pop.	23.1%	17.8%	29.0%	16.2%	19.2%

	McMinn	Meigs	Polk	Rhea	Sequatchie	Service Area	State Of Tennessee
Total Pop. - 2014	52,233	12,205	16,604	33,392	15,019	634,764	6,588,698
Total Pop. - 2018	54,203	12,643	16,588	34,790	16,004	650,170	6,833,509
Total Pop. - % Change	3.8%	3.6%	-0.1%	4.2%	6.6%	2.4%	3.7%
Median Age	39	38	41	38	37	39	38
Median Household Income	$38,944	$33,492	$37,235	$36,470	$33,181	$36,483	$44,140
TennCare Enrollees	10,660	2,700	3,529	8,090	3,574	118,232	1,241,028
TennCare Enrollees As % Of Total Pop.	20.4%	22.1%	21.3%	24.2%	23.8%	18.6%	18.8%
Persons Below Poverty Level	9,663	2,844	2,956	7,480	2,899	131,142	1,139,845
Persons Below Poverty Level As % Of Total Pop.	18.5%	23.3%	17.8%	22.4%	19.3%	20.7%	17.3%

19.) Section C, Economic Feasibility, Item 2.

The applicant notes the proposed project will be funded from cash reserves. However, the funding letter in the attachments notes the proposed project will be funded from operations. Since the historical data chart indicates the applicant has operated at a loss for the past 3 years, please revise the letter to indicate the project will be funded through cash reserves and resubmit.

Response

Applicant has traditionally considered cash reserves and operations to be synonymous, however, we have attached a revised page 49 to this supplemental information which identifies "Other" as the funding source, with the notation of funds from operations.

20.) Section C, Economic Feasibility, Item 1 (Historical & Projected Data Charts).

There appears to be errors in the Year One "total operating expense category" of the Projected Data Chart. Please revise and resubmit.

The applicant has not designated management fees in the historical and projected data charts. Please verify the applicant does not pay management fees to affiliates.

The Projected Data Chart is noted. Please complete the following table and place the tables on separate pages labeled 51A and 52A, respectively to be located after the Historical and Projected Data Charts.

PROJECTED DATA CHART-OTHER EXPENSES

OTHER EXPENSES CATEGORIES	Year___	Year___
1.	$_____	$_____
2.	_____	_____
3.	_____	_____
4.	_____	_____
5.	_____	_____
6.	_____	_____
7.	_____	_____
Total Other Expenses	$_____	$_____

HISTORICAL DATA CHART-OTHER EXPENSES

OTHER EXPENSES CATEGORIES	Year___	Year___	*Year*___
1.	$_____	$_____	$_____
2.	_____	_____	_____
3.	_____	_____	_____
4.	_____	_____	_____

5.	_____	_____	_____
6.	_____	_____	_____
7.	_____	_____	_____
Total Other Expenses	$_____	$_____	$_____

The historical chart indicates the applicant has operated at a loss of approximately $12 million in 2011, $26 million in 2012, and $24 million in 2013. Please provide a Projected Data Chart for Erlanger Medical Center for Year One and Year Two of the proposed project.

Response

The other expense categories for the *Projected Data Chart* and the *Historical Data Chart;* as well as an updated *Projected Data Chart*, are attached to this supplemental information. Applicant does not have any expense related to management fees.

Concerning the observation that *Erlanger* has operated with a negative financial result for the last 3 years, we have attached a copy of the FY 2014 audit report which shows that a turn around situation has been effected. This audit report was just released to the public on Monday, September 22, 2014, and shows a positive from operations of $ 17,917,993.

21.) Section C, Economic Feasibility, Question 5.

The average gross charge, average deduction and average net charge are noted. However, please identify the project's average gross charge, average deduction from operating revenue, and average net charge using information from the Projected Data Chart for Year 1 and Year 2 of the proposed project.

Response

The information is below.

	Year 1	Year 2
Average Gross Charge	3,614	3,774
Average Deduction From Revenue	3,184	3,248

Average Net Charge	430	526

22.) Section C, Economic Feasibility, Question 6.A.

Please respond to this question specific to the proposed MRI service.

Response

Please see the list of patient charges for MRI services at *Erlanger Medical Center* attached to this supplemental information. Applicant does revise it's patient charge structure on a periodic basis (i.e.- usually annually) during the budget cycle each fiscal year. However, applicant does not anticipate any changes to existing patient charges specifically as a result of this project.

23.) Section C, Economic Feasibility, Question 6.B.

Please compare the proposed MRI Gross Charges per Procedure/Treatment by quartiles using the following table:

Gross Charges per Procedure/Treatment
By Quartiles
YEAR = 2013

Equipment Type	1st Quartile	Median	3rd Quartile
MRI	$1,570.39	$2,175.15	$3,498.94
Source: Medical Equipment Registry – 8/11/2014			

Response

As per the attached patient charge list for MRI services, *Erlanger Medical Center* has 27 charge items above the 3rd quartile, 41 charge items above the 2nd quartile (i.e.-Median), 14 items above the 1st quartile, and 34 items below the 1st quartile.

24.) Section C, Economic Feasibility, Question 7.

Please respond to this question specific to the proposed MRI service.

Response

Per the *Projected Data Chart*, in year 2 of this project the volume will be 2,975 procedures. This is 95 procedures more than is required per *Agency* criterion to reach the optimal capacity threshold of 2,880 procedures by year 3.

25.) Section C, Economic Feasibility, Question 8.

Please demonstrate the availability of sufficient cash flow until financial viability is achieved.

Response

Per the *Projected Data Chart* for this project, the net operating income will be $ 498,891 in Year 1 and $ 863,149 in year 2.

Concerning the observation that *Erlanger* has operated with a negative financial result for the last 3 years, we have attached a copy of the FY 2014 audit report which shows that a turn around situation has been effected. This audit report was just released to the public on Monday, September 22, 2014, and shows a positive from operations of $ 17,917,993.

26.) Section C, Economic Feasibility, Item 9.

Please indicate the percentage of total project revenue anticipated from each of TennCare/Medicaid or other state and federal sources for the proposal's first year of operation.

Please indicate how medically indigent patients will be served by the project.

Response

Anticipated revenue (gross charges) from Federal and State sources during year 1 of the project is as follows.

	Gross Revenue	% Of Total Revenue

Medicare	$ 2,640,828	31.1 %
TennCare	$ 413,165	4.9 %
	$ 3,053,993	36.0 %

27.) Section C, Economic Feasibility, Item 11.

One of the alternatives of the applicant is to continue to refer patients to providers in the service area with a 3T MRI. Please discuss why this alternative may not be a practicable alternative.

Response

As discussed in the CON application, *Erlanger Medical Center* is the safety net provider for southeast Tennessee. As such, because our mission is to serve all patients regardless of ability to pay, if we did not acquire the 3.0 Tesla MRI unit, the vulnerable populations which we serve may not be able to obtain this service if it is needed.

As an academic medical center and a teaching affiliate of the University of Tennessee College of Medicine, we need to acquire this technology in order to remain on the leading edge of our teaching mission.

Further, the continuity of care that is provided within the *Erlanger* system of care could be lost, to some extent, if we did not provide this service.

For these reasons, it is not practical to continue to refer our patients to other providers.

28.) Section C, Contribution To Orderly Development, Item 3 (Staffing).

Please provide the current and proposed staffing pattern for all employees and compare the staff salaries to the prevailing wage patterns in the service area. Also, please provide the reference for the area wide wages.

Position Title	Current FTEs Existing 3 MRIs	Proposed FTEs for 3T MRI	Net Change	EMC Average Wage	Area-wide Wage Average

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Total					

Response

The information is below.

Position Title	Current FTEs Existing 3 MRIs	Proposed FTEs for 3T MRI	Net Change	EMC Average Wage	Area-wide Wage Average
RT	8	2	+2	26.31	29.52
RN	1	0	0	29.39	27.77
PCT	3	2	+2	11.10	12.10
Total	12	4	+4		

29.) Section C, Contribution To Orderly Development, Items 8 and 9.

The applicant has responded N/A to items 8 and 9. Please provide a narrative response addressing the question.

Response

As requested, the narrative responses appear below.

Item 8

There have been no final orders or judgments entered in any state or country by a licensing agency or court against professional licenses held by the applicant or any entities or persons with more than a 5% ownership interest in the applicant.

Item 9

There have been no final civil or criminal judgments for fraud or theft against the applicant, which includes any person or entity with more than a 5% ownership interest in the project.

30.) Outstanding Project Update.

A brief two to three sentence update will be appreciated regarding the progress on the implementation of the following projects:

CN1207-034A - Renovation, upgrade and modernization of adult operating rooms and addition of 4 OR's.
CN0405-047A - Erlanger East Expansion.
CN1012-056A.- Erlanger North Conversion of 30 acute care beds to 30 skilled nursing beds & initiation of skilled nursing services.

Please include where the project currently stands (i.e., what phase) in the implementation process, when the projected is expected to be completed and the expiration date of the Certificate of Need.

Response

Updated information for these projects is below.

CN1207-034A -- This project is progressing and is currently about 65% complete. It will be completed by the expiration date of November 1, 2015.
CN0405-047A -- The expansion of *Erlanger East* was approved for an extension until December 1, 2016, at the *Agency* meeting on Wednesday, September 24, 2014.
CN1012-056A -- The CON for this project was returned to the *Agency* in August, 2014.

SUPPLEMENTAL- 1

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SEP 26 '14 AM 11:35

A F F I D A V I T

STATE OF TENNESSEE |
|
COUNTY OF HAMILTON |

NAME OF FACILITY Erlanger Medical Center

I, Joseph M. Winick, after first being duly sworn, State under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

SIGNATURE

SWORN to and subscribed before me this 23 of September (Month), 2014 (Year), a Notary Public in and for the State of Tennessee, County of Hamilton.

SHELIA HALL
STATE OF TENNESSEE NOTARY PUBLIC
HAMILTON COUNTY

Shelia Hall
NOTARY PUBLIC

My Commission expires June 9 (Month / Day), 2018.

TABLE OF ATTACHMENTS

** NOTE - The attachments are paginated and the page number begins with "A". The page number appears in the upper right hand corner of the page.

Description	Page No.
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Quit Claim Deed	A-2
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Audited Financial Statements - FY 2014	A-20

ATTACHMENTS

EHS – Analysis Of MRI Utilization In Southeast Tennessee

County	Type	Facility Name	CY 2013 MRI Units	CY 2013 Proc's	CY 2013 Avg. Per Unit	CY 2012 MRI Units	CY 2012 Proc's	CY 2012 Avg. Per Unit	CY 2011 MRI Units	CY 2011 Proc's	CY 2011 Avg. Per Unit
Bradley	HOSP	Skyridge Medical Center	1.0	2,302	2,302	1.0	2,499	2,499	1.0	2,584	2,584
Bradley	HOSP	Skyridge Medical Center - Westside	2.0	1,818	909	2.0	2,493	1,247	2.0	3,214	1,607
Hamilton	ODC	Chattanooga Imaging Downtown	2.0	1,540	770	2.0	2,035	1,018	2.0	2,044	1,022
Hamilton	RPO	Chattanooga Imaging East	1.0	2,822	2,822	1.0	2,850	2,850	2.0	4,552	2,276
Hamilton	RPO	Chattanooga Imaging Hixson	1.0	2,386	2,386	1.0	2,230	2,230	1.0	2,117	2,117
Hamilton	ODC	Chatt. O/P Center	2.0	7,292	3,646	1.0	6,465	6,465	1.0	6,045	6,045
Hamilton	H-Imaging	Erlanger East Imaging	1.0	568	568	1.0	704	704	1.0	1,275	1,275
Hamilton	HOSP	Erlanger Medical Center	3.0	11,558	3,853	3.0	10,915	3,638	3.0	10,730	3,577
Hamilton	HOSP	Memorial Hixson Hospital	2.0	2,488	1,244	2.0	2,836	1,418	2.0	4,048	2,024
Hamilton	HOSP	Memorial Hospital	3.0	4,356	1,452	3.0	4,096	1,365	3.0	8,211	2,737
Hamilton	H-Imaging	Memorial Ooltewah Imaging Center	1.0	1,049	1,049	1.0	1,050	1,050	1.0	1,286	1,286
Hamilton	HOSP	Parkridge East Hospital	1.0	1,024	1,024	1.0	919	919	1.0	934	934
Hamilton	HOSP	Parkridge Medical Center	1.0	2,054	2,054	1.0	2,496	2,496	1.0	2,320	2,320
Hamilton	RPO	Tennessee Imaging & Vein Center	1.0	3,165	3,165	1.0	3,074	3,074	1.0	2,615	2,615
Marion	HOSP	Parkridge West Hospital	1.0	884	884	1.0	953	953	1.0	884	884
McMinn	HOSP	Starr Regional Medical Center	1.0	2,437	2,437	1.0	2,295	2,295	1.0	2,112	2,112
McMinn	HOSP	Starr Regional Medical Center - Etowah	1.0	479	479	1.0	1,078	1,078	1.0	1,028	1,028
Polk	HOSP	Copper Basin Medical Center	0.2	250	250				0.2	239	1,195
Rhea	HOSP	Rhea Medical Center	1.0	1,481	1,481	1.0	1,530	1,530	1.0	1,289	1,289
		Sub - Total	26.2	49,953	1,907	25.0	50,518	2,021	26.2	57,527	2,196
Bradley	PO	Cleveland Imaging	1.0	3,509	3,509	1.0	2,769	2,769	1.0	668	668
Hamilton	PO	Chattanooga Bone & Joint Surgeons, PC	1.0	841	841	1.0	1,021	1,021	1.0	1,119	1,119
Hamilton	PO	Chattanooga Orthopaedic Group PC	1.0	5,340	5,340	1.0	5,332	5,332	1.0	5,698	5,698
Hamilton	PO	Neurosurgical Group of Chattanooga, P.C.	1.0	1,198	1,198	1.0	1,405	1,405	1.0	1,388	1,388
		Sub - Total	4.0	10,888	2,722	4.0	10,527	2,632	4.0	8,873	2,218
		Total	30.2	60,841	2,015	29.0	61,045	2,105	30.2	66,400	2,199

(1) – MRI utilization data obtained from the Tennessee Health Services Agency website. Utilization data is for 2013.

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Vendor (Other Party)	Contract Type	Effective Date	Expiration Date	Description
Sweetwater Dialysis Center	Patient Transfer Agreement	6/19/2009	Evergreen	Provide Renal Transplantation and other services to Clinic patients
Harbin Clinics LLC	Patient Transfer Agreement	10/16/2012	10/15/2014	Renal Transplant Patient Transfer
Dialysis Clinic, Inc	Patient Transfer Agreement	3/23/1998	Evergreen	DCI Patient Transfer Agreements (all facilities -- see attachments)
Rhea County Medical Center	Patient Transfer Agreement	9/1/1989	Evergreen	Renal Transplant Services (Transfer)
Chattanooga Kidney Centers, LLC and Chattanooga Kidney Centers 58, LLC and Chattanooga Kidney Centers North, LLC and Kidney Center of Missionary Ridge	Patient Transfer Agreement	10/10/2011	10/9/2014	Renal Transplant Patient Transfer Agreement
Kindred Hospital	Patient Transfer Agreement	10/1/2001	Evergreen	Patient Transfer Agreement
Life Care Center of Collegedale	Patient Transfer Agreement	1/1/1995	Evergreen	Patient Transfer Agreement
Marshall Medical Center North	Patient Transfer Agreement	2/1/2000	Evergreen	Pediatric Patient Transfer
Life Care Center of Red Bank	Patient Transfer Agreement	1/1/1995	Evergreen	Patient Transfer Agreement
Tender Loving Care	Patient Transfer Agreement	1/1/1995	Evergreen	Hospice Transfer
LaFayette Health Care	Patient Transfer Agreement	1/31/1995	Evergreen	Patient Transfer Agreement
Jefferson Memorial Hospital	Patient Transfer Agreement	10/22/2004	Evergreen	Patient Transfer Agreement
Mountain Creek Manor	Patient Transfer Agreement	1/20/1995	Evergreen	Patient Transfer Agreement
Murphy Medical Center	Patient Transfer Agreement	4/1/2000	Evergreen	Pediatric Patient Transfer Agreement
Northside Hospital	Patient Transfer Agreement	4/10/1992	Evergreen	Patient Transfer Agreement
Renaissance Rehabilitation	Patient Transfer Agreement	4/26/1990	Evergreen	Patient Transfer Agreement
Rivermont Convalescent Center	Patient Transfer Agreement	1/25/1995	Evergreen	Patient Transfer
The Health Center at Standifer Place	Patient Transfer Agreement	6/18/2012	6/17/2015	Patient Transfer
Shepherd Hills Health Care Center	Patient Transfer Agreement	1/25/1995	Evergreen	Patient Transfer Agreement
Methodist Medical Center	Patient Transfer Agreement	2/6/2002	Evergreen	Patient Transfer Agreement
Brookewood Medical Center	Patient Transfer Agreement	6/27/2012	6/26/2015	Patient Transfer Agreement
Continuum Care Corporation d/b/a Spring City Health Care Center	Patient Transfer Agreement	2/1/1999	Evergreen	Patient Transfer Agreement
Bledsoe Community Medical Center	Patient Transfer Agreement	6/27/2012	6/26/2015	Patient Transfer
The University of Tennessee Medical Center	Patient Transfer Agreement	5/29/2002	Evergreen	Patient Transfer Agreement
Erlanger Bledsoe	Patient Transfer Agreement	10/1/2001	Evergreen	Patient Transfer Agreement
Cookeville Regional Medical Center	Patient Transfer Agreement	2/10/2010	Evergreen	Patient Transfer Agreement
Scott County Hospital	Patient Transfer Agreement	1/11/2001	Evergreen	Patient Transfer Agreement

SUPPLEMENTAL-1

Vendor (Other Party)	Contract Type	Effective Date	Expiration Date	Description
Wellmont Health Systems	Patient Transfer Agreement	6/30/2001	Evergreen	Patient Transfer Agreement
Laughlin Memorial Hospital, Inc	Patient Transfer Agreement	11/23/2011	11/22/2014	Patient Transfer Agreement
Fort Sanders Park West Medical Center	Patient Transfer Agreement	10/22/1999	Evergreen	Patient Transfer Agreement
Ft Oglethorpe Nursing Home	Patient Transfer Agreement	1/12/2012	1/11/2015	Patient Transfer Agreement
Johnson City Medical Center	Patient Transfer Agreement	5/29/2002	Evergreen	Patient Transfer Agreement
Life Care Center of Chattanooga	Patient Transfer Agreement	1/25/1995	Evergreen	Patient Transfer Agreement
St Barnabas Nursing Home	Patient Transfer Agreement	1/25/1995	Evergreen	Patient Transfer Agreement
North Jackson Hospital	Patient Transfer Agreement	2/1/2000	Evergreen	Pediatric Patient Transfer Agreement
National Health Care of Rossville	Patient Transfer Agreement	5/17/2012	Evergreen	Patient Transfer Agreement
National Health Care of Fort Oglethorpe	Patient Transfer Agreement	5/22/2012	Evergreen	Patient Transfer Agreement
National Healthcare of Dunlap	Patient Transfer Agreement	6/20/2012	6/19/2015	Patient Transfer Agreement
National Health Care of Athens	Patient Transfer Agreement	5/15/2012	Evergreen	Patient Transfer Agreement
Shriners Hospitals for Children	Patient Transfer Agreement	7/1/2000	Evergreen	Pediatric Patient Transfer Agreement
Rhea Medical Center	Patient Transfer Agreement	2/6/2002	Evergreen	Patient Transfer Agreement
Siskin Hospital for Physical Rehabilitation	Patient Transfer Agreement	2/9/1990	Evergreen	Shared Services
Alexian Village of Chattanooga	Patient Transfer Agreement	1/1/1995	Evergreen	Patient Transfer Agreement
Blount Memorial Hospital	Patient Transfer Agreement	2/7/2001	Evergreen	Pediatric Patient Transfer Agreement
Columbia Indian Path Medical Center	Patient Transfer Agreement	1/13/1997	Evergreen	Patient Transfer Agreement
Columbia East Ridge Hospital	Patient Transfer Agreement	3/31/1998	Evergreen	Pediatric Patient Transfer Agreement
East Ridge Hospital	Patient Transfer Agreement	10/22/1996	Evergreen	Patient Transfer Agreement
NovaMed Eye and Laser Surgery, Center of	Patient Transfer Agreement	6/27/2002	Evergreen	Patient Transfer Agreement
Jamestown Regional Medical Center, f/k/a Fentress County Hospital	Patient Transfer Agreement	5/14/2012	Evergreen	Patient Transfer Agreement
Healthsouth Chattanooga Surgery Center	Patient Transfer Agreement	4/13/1999	Evergreen	Patient Transfer Agreement
Harton Regional Medical Center	Patient Transfer Agreement	12/8/2011	12/7/2014	Patient Transfer Agreement
St Mary's Health System, Inc	Patient Transfer Agreement	4/1/2003	Evergreen	Patient Transfer Agreement
Riverview Regional Medical Center North, f/k/a Smith County Hospital	Patient Transfer Agreement	12/5/2011	12/4/2014	Patient Transfer Agreement
Redmond Regional Medical Center	Patient Transfer Agreement	1/17/2012	1/16/2015	Patient Transfer Agreement
Murray Medical Center	Patient Transfer Agreement	12/5/2011	12/4/2014	Patient Transfer Agreement
Medical Center of Manchester	Patient Transfer Agreement	4/19/2012	4/18/2015	Patient Transfer Agreement
Lincoln County Health System	Patient Transfer Agreement	11/30/2011	11/29/2014	Patient Transfer Agreement

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Vendor (Other Party)	Contract Type	Effective Date	Expiration Date	Description
Hamilton Medical Center	Patient Transfer Agreement	11/22/2011	11/21/2014	Patient Transfer
Fannin Regional Hospital	Patient Transfer Agreement	6/18/2012	6/17/2015	Patient Transfer
Cumberland Medical Center, Inc	Patient Transfer Agreement	12/2/2011	12/1/2014	Patient Transfer
Copper Basin Medical Center	Patient Transfer Agreement	12/1/2011	11/30/2014	Patient Transfer Agreement
Chatuge Regional Hospital	Patient Transfer Agreement	12/1/2011	11/30/2014	Patient Transfer Agreement
Highlands Medical Center	Patient Transfer Agreement	4/25/2012	12/31/2014	Patient Transfer Agreement
Gordon Hospital	Patient Transfer Agreement	7/1/2012	Evergreen	Patient Transfer Agreement
Chattanooga Rehabilitation Hospital	Patient Transfer Agreement	7/25/2012	7/24/2015	Patient Transfer Agreement
Vanderbilt University Medical Center	Patient Transfer Agreement	7/1/2008	Evergreen	Burn Patient Transfer
Physician Surgery Center of Chattanooga	Patient Transfer Agreement	4/2/2012	Evergreen	Patient Transfer
Parkridge Medical Center	Patient Transfer Agreement	5/18/2012	Evergreen	Patient Transfer
Renaissance Surgery Center	Patient Transfer Agreement	2/16/2012	2/15/2015	Patient Transfer Agreement
East Tennessee Regional Hospitals	Patient Transfer Agreement	9/23/2014	Evergreen	Disaster Aid Agreement (Memorial Health Care; Parkridge Medical Center, Inc; Southern Tennessee Medical Center/Emerald Hodgson Hospital; Copper Basin Medical Center; Athens Regional Medical Center/Woods Memorial Hospital; Grandview Medical Center; Rhea Medical Center; Skyridge Medical Center)

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Charge Code	Description	Charge Amount	CPT / HCPCS Code
34500033	MRA ABD W/O CONTRAST	1,736.00	74185
34500041	MRA LOWER EXT W/O CONTRAST	1,889.00	73725
34500066	MRA UPPER EXT W OR WO	3,066.00	73225
34500074	MRI ABDOMEN W/O	2,453.00	74181
34500108	MRI BRAIN W/CONTRAST	3,831.00	70552
34500116	MRI BRAIN W/O CONTRAST	2,783.00	70551
34500124	MRI BRAIN W/WO CONTRAST	4,973.00	70553
34500132	MRI CHEST W/O CONTRAST	1,225.00	71550
34500140	GADOLINIUM INJECTION PER ML	11.00	A9579
34500165	MRI LOWER EXT ANY JNT W/O	2,818.00	73721
34500173	MRI LOWER EXT NOT JNT W/WO	3,498.00	73720
34500207	MRI ORBIT/FACE/NECK,W/O CONTRA	2,871.00	70540
34500215	MRI PELVIS W/CONTRAST	2,201.00	72196
34500223	MRI SPINE CERVICAL W/CONTRAST	3,984.00	72142
34500231	MRI SPINE CERVICAL W/O CONTRAS	2,914.00	72141
34500249	MRI SPINE CERVICAL W/WO CONTRA	5,270.00	72156
34500256	MRI SPINE LUMBAR W/CONTRAST	3,622.00	72149
34500264	MRI SPINE LUMBAR W/O CONTRAST	3,113.00	72148
34500272	MRI SPINE LUMBAR W/WO CONTRAST	4,796.00	72158
34500280	MRI SPINE THORACIC W/CONTRAST	4,035.00	72147
34500298	MRI SPINE THORACIC W/O CONTRAS	3,268.00	72146
34500306	MRI SPINE THORACIC W/WO CONTRA	4,433.00	72157
34500314	MRI TM JOINT	758.00	70336
34500322	MRI UPPER EXTREM ANY JOINT W/O	3,353.00	73221
34500330	MRI UPPER EXT,NOT JNT W/WO	3,399.00	73220
34500355	MRA PELVIS WITH & WITHOUT CONT	1,960.00	72198
34500363	MRA CHEST W/O CONTRAST	1,243.00	71555
34500371	INJECT PROC SHOULDER ARTH	845.00	23350
34500389	FLUOROSCOPY,SHOULDER INJ	291.00	77002
34500397	MRI SHOULDER W/O CONTRAST	3,353.00	73221
34500405	MR SPECTROSCOPY	1,162.00	76390
34500413	MRI BREAST UNI W/O CONTRAST	1,725.00	77058
34500421	MRI BREAST UNILAT W/CONTRAST	2,066.00	77058
34500439	MRI BREAST UNILAT W/WO CONT	2,934.00	77058
34500447	MRI BREAST BILAT WO CONTRAST	1,861.00	77059
34500454	MRI BREAST BILAT W/CONT	2,066.00	77059
34500462	MRI BREAST BILAT W/WO CONT	3,580.00	77059
34500470	MRA CHEST W/CONTRAST	1,243.00	71555
34500488	MRA CHEST W & WO CONTRAST	1,243.00	71555
34500496	MRA LOW EXT W/CONTRAST	2,203.00	73725
34500504	MRA LOW EXT W & WO CONTRAST	2,560.00	73725
34500512	MRA ABD W/CONTRAST	2,048.00	74185
34500520	MRA ABD W & WO CONTRAST	2,344.00	74185
34500595	UNLISTED MR PROCEDURE	617.00	76498
34500835	MRCP	2,453.00	74181
34500843	MRI SPINE CERVICAL W/O CONT LT	2,914.00	72141
34500850	MRI SPINE LUMBAR W/O CONT LT	3,113.00	72148
34500868	MRI SPINE THORACIC W/O CONT LT	3,268.00	72146
34500876	MRA PELVIS W CONTRAST	1,693.00	72198
34500884	MRA PELVIS W/O CONTRAST	1,434.00	72198
34500892	MRI EOVIST INJ PER ML	20.00	A9581

Charge Code	Description	Charge Amount	CPT / HCPCS Code
34500900	BREAST BX HANDPIECE	560.00	
34500918	BREAST BX OBTURATOR	318.00	
34500926	BREAST BX SITE MARKER	155.00	
34503649	MRI BX BRST 1ST LESION 19085	1,211.00	19085
34503656	MRI BX BRST ADD LESION 19086	575.00	19086
34505354	3D RENDER W/O POST PROCESS	429.00	76376
34505362	3D RENDER W/POST PROCESS	1,119.00	76377
34505388	MOD SEDATION <5 YRS 99143	524.00	99143
34505396	MOD SEDATION >5 YRS 99144	524.00	99144
34505768	MRA LOWER EXT W/O CONTRAST BIL	3,594.00	73725
34505784	MRI LOWER EXT ANY JNT W/O BIL	4,816.00	73721
34505792	MRI LOWER EXT NOT JNT W/WO BIL	5,977.00	73720
34505800	MRI UPPER EXT ANY JNT W/O BIL	3,353.00	73221
34505818	MRI UPPER EXT NOT JNT W/WO BIL	6,475.00	73220
34505826	MRI SHOULDER W/O CONTRAST BIL	3,353.00	73221
34505834	MRA LOWER EXT W CONTRAST BIL	4,194.00	73725
34505842	MRA LOWER EXT W&W/O CONT BIL	4,873.00	73725
34505859	MRI UPPER EXT NOT JNT W/O BIL	3,173.00	73218
34505867	MRI UPPER EXT NOT JNT W BIL	6,008.00	73219
34505875	MRI UPPER EXT ANY JNT W/BIL	6,702.00	73222
34505883	MRI UPPER EXT ANY JNT W/WO BIL	6,475.00	73223
34505891	MRI LOWER EXT NOT JNT W/O BIL	4,253.00	73718
34505909	MRI LOWER EXT NOT JNT W BIL	4,816.00	73719
34505917	MRI LOWER EXT ANY JNT W BIL	4,816.00	73722
34505925	MRI LOWER EXT ANY JNT W/WO BIL	5,977.00	73723
34505933	NEEDLE PLACEMENT MR GUIDANCE	1,245.00	77021
34505941	MRI CARD MORPH FUNC WO CONTRST	1,755.00	75557
34505966	MRI CARD STRSS IMAGE WO CONT	354.00	75559
34505982	MRI CARD MORPH FUNCT W CONTRST	573.00	75561
34506006	MRI CARD STRSS IMAGE W CONT	573.00	75563
34506014	CONS SEDATION EACH ADD 15 MINS	288.00	99145
34506071	BREAST,SURG SPECIMEN	85.00	76098
34506089	MRA SPINAL CANAL WO CONTRST	1,459.00	72159
34506097	MRA SPINAL CANAL W CONTRST	1,459.00	72159
34506105	MRA SPINAL CANAL WO/W CONTRST	1,459.00	72159
34506113	MRA UPPER EXT WO CONTRST	2,956.00	73225
34506121	MRA UPPER EXT W CONTRST	2,956.00	73225
34506139	MRA UPPER EXT WO/W CONTRST	2,956.00	73225
34506154	MRA UPPER EXT W CONTRST BIL	5,630.00	73225
34506162	MRA UPPER EXT WO/W CONTRST BIL	5,630.00	73225
34520007	MRI ORBIT,FACE/NECK W CONTRAST	3,450.00	70542
34520015	MRI ORBIT,FACE,NECK W/WO	4,472.00	70543
34520023	MRA HEAD W/O CONTRAST	2,049.00	70544
34520031	MRA HEAD W CONTRAST	3,031.00	70545
34520049	MRA HEAD W/WO CONTRAST	3,387.00	70546
34520056	MRA NECK W/O CONTRAST	2,049.00	70547
34520064	MRA NECK W CONTRAST	3,046.00	70548
34520072	MRA NECK W/WO CONTRAST	3,387.00	70549
34520080	MRI CHEST W CONTRAST	1,483.00	71551
34520098	MRI CHEST W & W/O CONTRAST	4,302.00	71552
34520106	MRA SPINAL CANAL W OR WO	1,459.00	72159

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Charge Code	Description	Charge Amount	CPT / HCPCS Code
34520114	MRI PELVIS W/O CONTRAST	1,493.00	72195
34520122	MRI PELVIS W & W/O CONTRAST	2,356.00	72197
34520130	MRI UPPER EXT,NOT JNT W/O	2,066.00	73218
34520148	MRI UPPER EXT,NOT JNT W	2,745.00	73219
34520155	MRI UPPER EXT ANY JNT W	3,065.00	73222
34520163	MRI UPPER EXT ANY JNT W/WO	3,399.00	73223
34520171	MRI LOWER EXT NOT JNT,WO	2,232.00	73718
34520189	MRI LOWER EXT NOT JNT,W	3,139.00	73719
34520197	MRI LOWER EXT ANY JNT W	3,139.00	73722
34520205	MRI LOWER EXT ANY JNT W/WO	3,498.00	73723
34520213	MRI ABDOMEN W	2,972.00	74182
34520221	MRI ABDOMEN W/WO	4,306.00	74183
34520288	FLUORO GUIDANCE FOR NEEDLE PLA	291.00	77002
34520296	MRI BONE MARROW BLOOD SUPPLY	1,717.00	77084

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CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY (d/b/a Erlanger Health System and Discretely Presented Component Units)

Audited Combined Financial Statements

Years Ended June 30, 2014 and 2013

PYA
Certified Public Accountants

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Audited Combined Financial Statements

Years Ended June 30, 2014 and 2013

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Audited Combined Financial Statements

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Combined Statements of Revenue, Expenses and Changes in Net Position....14
Combined Statements of Cash Flows....16
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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Chattanooga-Hamilton County Hospital Authority
(d/b/a Erlanger Health System):

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the business-type activities of Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Health System (the Primary Health System) and its discretely presented component units, as of and for the years ended June 30, 2014 and 2013, and the related notes to the combined financial statements, which collectively comprise the Primary Health System's basic combined financial statements as listed in the table of contents.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Primary Health System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness

of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of the Primary Health System as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the combined financial statements, during the year ended June 30, 2014, the Primary Health System adopted a newly issued accounting standard that requires retroactive adjustments to amounts previously reported as of and for the year ended June 30, 2013, with a cumulative effect adjustment to net position as of June 30, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information: Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (shown on pages 3 through 11) be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Pershing Yoakley & Associates PC

Knoxville, Tennessee
September 17, 2014

Management's Discussion and Analysis

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis

Years Ended June 30, 2014 and 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Health System's financial performance provides an overview of financial activities for the fiscal years ended June 30, 2014 and 2013.

Erlanger Health System (the Primary Health System) is the largest healthcare provider in Southeast Tennessee. The Primary Health System maintains a number of very specialized clinical services such as Level I trauma, Level III neonatal, kidney transplantation, a Regional Cancer Unit, a full service children's hospital, and open heart surgery, all of which are primarily serviced by four "Life Force" helicopters and supported by subspecialty physicians (residents, faculty and private attending physicians) located on its campuses.

OVERVIEW OF THE COMBINED FINANCIAL STATEMENTS

The combined financial statements consist of two parts: Management's Discussion and Analysis and the combined financial statements. The combined financial statements also include notes that explain in more detail some of the information in the combined financial statements.

The combined financial statements of the Primary Health System offer short-term and long-term financial information about its activities. The combined statements of net position include all of the Primary Health System's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Primary Health System's creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. It also provides the basis for computing rate of return, evaluating the capital structure of the Primary Health System and assessing the liquidity and financial flexibility of the Primary Health System.

All of the fiscal year's revenues and expenses are accounted for in the combined statements of revenue, expenses, and changes in net position. These statements measure the success of the Primary Health System's operations and can be used to determine whether the Primary Health System has successfully recovered all of its costs through the services provided, as well as its profitability and credit worthiness.

The final required financial statement is the combined statements of cash flows. The primary purpose of these statements is to provide information about the Primary Health System's cash receipts, cash payments and net changes in cash resulting from operating, investing, non-capital financing and financing activities. The statements also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period?

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2014 and 2013

The analyses of the combined financial statements of the Primary Health System begins on the next page. One of the most important questions asked about the Primary Health System's finances is "Is the financial condition of the Primary Health System as a whole better or worse as a result of the fiscal year's activities?" The combined statements of net position and the combined statements of revenue, expenses and changes in net position report information about the Primary Health System's activities in a way that will help answer this question. These two statements report the net position of the Primary Health System and changes in the net position. One can think of the Primary Health System's net position – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Primary Health System's net position is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, regulations and new or changed government legislation.

REPORTING ENTITY

The Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Health System (the Primary Health 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 Primary Health System is considered the primary governmental unit for financial reporting purposes. As required by generally accepted accounting principles, these financial statements present the Primary Health System and its component units. The component units discussed below are included in the Primary Health System's reporting entity because of the significance of their operational, financial or other relationships with the Primary Health System.

ContinuCare HealthServices, Inc., Plaza Surgery, G.P., Cyberknife of Chattanooga, LLC (Cyberknife), UT-Erlanger Medical Group, Inc. (the Medical Group) and Erlanger Health Plan Trust are legally separate organizations for which the Primary Health System is either financially accountable or owns a majority interest. Accordingly, these organizations represent component units of the Primary Health System. The financial statements of Erlanger Health Plan Trust are blended with the financial statements of the Primary Health System, as the Board of Erlanger Health Plan Trust is substantially the same as that of the Primary Health System and the Primary Health System has operational responsibility.

During 2012, the Primary Health System acquired 100% ownership in Plaza Surgery, G.P. As a result, Plaza Surgery, G.P.'s operations are no longer distinct from the Primary Health System. 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's campus. At June 30, 2014,

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2014 and 2013

2013 and 2012, the Primary Health System owned 51% of Cyberknife's outstanding membership units. The Medical Group was formed on June 30, 2011 and will provide professional healthcare and related services to the public 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 Medical Group is currently not active.

KEY FINANCIAL INDICATORS

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

- Excess revenues over expenses from operations for Erlanger Health System for the fiscal year 2014 is $18.0 million compared to excess expenses over revenues of $7.9 million for the fiscal year 2013 and excess expenses over revenues of $9.5 million for the fiscal year 2012.

- Total cash and investment reserves at June 30, 2014 are $139 million (excluding $31 million of funds held by Trustees or restricted by donors or others).

- Net days in accounts receivable for Erlanger Health System (utilizing a three month rolling average of net revenue) is 50 days at June 30, 2014 compared to 50 days at June 30, 2013 and 53 days at June 30, 2012.

- For fiscal year 2014, Erlanger Health System recognized $19.6 million in public hospital supplemental payments from the State of Tennessee.

- For fiscal year 2014, Erlanger Health System recognized $12.8 million in essential access payments from the State of Tennessee compare to $10.6 million in fiscal year 2013 and $11.4 million in fiscal year 2012.

- For fiscal year 2014, Erlanger Health System did not recognize disproportionate share payments from the State of Tennessee compared to $8.5 million in fiscal year 2013 and $9.2 million in fiscal year 2012.

- For fiscal year 2014, Erlanger Health System recognized $0.9 million in trauma fund payments from the State of Tennessee compared to $1.1 million in fiscal year 2013 and $1.0 million in fiscal year 2012.

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CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2014 and 2013

- For fiscal year 2012, Erlanger Health System recognized $3.3 million in a Medicare rural floor budget neutrality settlement payment.

The required bond covenants ratios for fiscal year 2014 compared to bond requirements are as follows:

		Master	*Bond Insurer Requirements*		
	June 30, 2014	*Trust Indenture*	*98 Series*	*00 Series*	*04 Series*
Debt service coverage ratio	2.40	1.10	1.10	1.35	1.35
Cushion ratio	7.30	N/A	1.50	N/A	N/A
Current ratio	2.57	N/A	1.50	1.50	1.50
Days cash on hand	87	N/A	N/A	65 days	65 days
Indebtedness ratio	48%	N/A	N/A	N/A	65%
Operating cash flow margin	8%	N/A	N/A	5%	5%

The trust indentures and related documents underlying the bonds contain certain covenants and restrictions. For fiscal year 2014, Erlanger Health System met all required debt covenants. For fiscal year 2013, Erlanger Health System failed to satisfy the debt service coverage ratio required by one of the bond insurers. As a result of the non-compliance, the Primary Health System obtained a waiver from the bond insurer.

NET POSITION

Erlanger Health System's net position for the combined Primary Health System and Aggregate Discretely Presented Component Units increased by approximately $14 million in fiscal year 2014. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the Primary Health System's operating activities. Discussion focuses on the Primary Health System and its blended component units.

Net position for the Primary Health System increased from $182 million as of June 30, 2013 to $195 million as of June 30, 2014. The current ratio (current assets divided by current liabilities) increased from 2.25 in 2013 to 2.52 in 2014 for the Primary Health System.

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CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2014 and 2013

Table 1- Net Position (in Millions)

	June 30, 2014		June 30, 2013		June 30, 2012 (before GASB 65 adoption)	
	Primary Health System	Discretely Presented Component Units	Primary Health System	Discretely Presented Component Units	Primary Health System	Discretely Presented Component Units
Current and other assets	$ 333	$ 12	$ 309	$ 12	$ 328	$ 12
Capital assets	149	9	161	10	158	10
Total assets	480	21	470	22	486	22
Deferred ouflows of resources	1	-	1	-	-	-
	$ 481	$ 21	$ 471	$ 22	$ 486	$ 22
Long-term debt outstanding	$ 159	$ 3	$ 170	$ 3	$ 177	$ 4
Other liabilities	123	3	114	4	109	4
Total liabilities	282	6	284	8	286	8
Deferred inflows of resources	4	-	4	-	-	-
	$ 286	$ 6	$ 289	$ 8	$ 286	$ 8
Net position						
Net investment in capital assets	$ 1	$ 5	$ 10	$ 6	$ -	$ 5
Restricted, expendable	2	-	2	-	2	-
Unrestricted	191	9	170	8	198	9
Total net position	$ 194	$ 14	$ 182	$ 14	$ 200	$ 14

Days in cash increased from 73 days as of June 30, 2013 to 88 days as of June 30, 2014 for the Primary Health System resulting from increased operating margins combined with a $19.6 million public hospital supplemental payment received from the State of Tennessee in fiscal year 2014. Days in cash decreased from 81 days as of June 30, 2012 to 73 days as of June 30, 2013 for the Primary Health System due to decreased operating margins combined with a $8 million receivable for funds drawn on a line of credit extended to Hutcheson Medical Center, Inc. in fiscal year 2013.

Days in net accounts receivable were 51 days as of June 30, 2014 and June 30, 2013. Days in net accounts receivable decreased from 55 days as of June 30, 2012 to 51 days as of June 30, 2013.

Capital assets for the Primary Health System were $149 million as of June 30, 2014. Additions for fiscal year 2014 totaled $14 million while $5 million of assets were retired. Depreciation expense was $26 million for the Primary Health System. Retirement of assets reduced accumulated depreciation by $5 million in fiscal year 2014. Construction in progress was $5 million as of June 30, 2014. Included in construction in progress are Erlanger East development costs of $2.5 million.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2014 and 2013

Capital assets for the Primary Health System were $161 million as of June 30, 2013. Additions for fiscal year 2013 totaled $30 million while $4 million of assets were retired. Depreciation expense was $27 million for the Primary Health System. Retirement of assets reduced accumulated depreciation by $4 million in fiscal year 2013. Construction in progress was $9 million as of June 30, 2013. Included in construction in progress at June 30, 2013 are surgical suite expansion projects totaling $3.2 million

	Primary Health System		
	2014	*2013*	*2012*
Land and improvements	$ 26	$ 26	$ 25
Buildings	234	231	224
Equipment	377	367	351
Total	637	624	600
Less accumulated depreciation	(493)	(472)	(449)
Construction in progress	5	9	7
Net property, plant and equipment	$ 149	$ 161	$ 158

Long-term debt outstanding amounted to $159 million as of June 30, 2014 compared to $169 million as of June 30, 2013. The decrease in long-term debt reflects normal scheduled principal payments. Long-term debt outstanding amounted to $169 million as of June 30, 2013 compared to $177 million as of June 30, 2012. The decrease in long-term debt reflects normal scheduled principal payments.

Other liabilities for the Primary Health System were $123 million as of June 30, 2014, $119 million at June 30, 2013, compared to $108 million as of June 30, 2012.

CHANGES IN NET POSITION

The focus for Erlanger Health System's management team during fiscal year 2014 and 2013 was to increase the Primary Health System's volumes in a number of key product lines in a downturned economy, improve relationships with stakeholders, and improve operating efficiencies.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Management's Discussion and Analysis - Continued

Years Ended June 30, 2014 and 2013

Table 2- Changes in Net Position (in Millions)

	June 30, 2014		*June 30, 2013*		*June 30, 2012*	
	Primary Health System	*Discretely Presented Component Units*	*Primary Health System*	*Discretely Presented Component Units*	*Primary Health System*	*Discretely Presented Component Units*
Net patient revenue	$ 571	$ 11	$ 526	$ 12	$ 514	$ 12
Other revenue	21	17	19	16	22	16
Total revenue	592	28	545	28	536	28
Expenses:						
Salaries	305	14	298	13	300	13
Supplies and other expenses	126	10	113	11	116	11
Purchased services	117	3	114	3	104	3
Depreciation and amortization	26	1	27	1	26	1
Total expenses	574	28	552	28	546	28
Operating income revenues in excess of (less than) expenses	18	1	(7)	-	(10)	-
Nonoperating gains	2	-	-	-	4	-
Interest expense and other	(9)	-	(7)	-	(11)	-
Operating/capital contributions	1	-	-	-	-	-
Change in net position	$ 12	$ 1	$ (14)	$ -	$ (17)	$ -

Net patient service revenue for the Primary Health System increased from $526 million in fiscal year 2013 to $571 million in fiscal year 2014. Admissions for fiscal year 2014 increased by 4.8% when compared to fiscal year 2013, while surgical mix increased over the prior year by 1.8%. The Erlanger East emergency room generated 15,900 additional emergency room visits compared to prior year.

Net patient service revenue for the Primary Health System increased from $514 million in fiscal year 2012 to $526 million in fiscal year 2013. Admissions for fiscal year 2013 were comparable to fiscal year 2012, however, case mix increased over the prior year by 1.6%. The Erlanger East emergency room opened in March 2013 generating 6,100 additional emergency room visits compared to prior year.

Salaries for the Primary Health System increased from $298 million in fiscal year 2013 to $305 million in fiscal year 2014. Staffing was in concert with the increased volumes. Paid FTE's per adjusted occupied bed decreased from 5.40 in fiscal year 2013 to 5.13 in fiscal year 2014, however, salary cost for fiscal year 2014 per hour increased by 2.2 % over the prior year. Inclement weather in January 2014 and February 2014 resulted in increased overtime wages. Salaries for the Primary Health System decreased from $300 million in fiscal year 2012 to $298 million in fiscal year 2013. Paid FTE's per adjusted occupied bed decreased from 5.60 in fiscal year 2012 to 5.40 in fiscal year 2013.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Management's Discussion and Analysis - Continued

Years Ended June 30, 2014 and 2013

Supplies and other expenses increased from $113 million for fiscal year 2013 to $126 million in fiscal year 2014. Supplies and drug costs trended with the volume increases. Supplies and drugs per adjusted admission for the Primary Health System decreased from $1,587 in fiscal year 2013 to $1,555 in fiscal year 2014. Supplies and other expenses decreased from $116 million for fiscal year 2012 to $113 million for fiscal year 2013. Supplies and drugs per adjusted admission for the Primary Health System decreased from $1,675 in fiscal year 2012 to $1,587 in fiscal year 2013.

Purchased Services increased from $114 million in fiscal year 2013 to $117 million in fiscal year 2014 due primarily to the outsourcing of food and environmental services. Purchased Services increased from $104 million in fiscal year 2012 to $114 million in fiscal year 2013 due to contracted service expenditures assumed with the purchase of Plaza Surgery's minority interest, fees associated with the third party operational assessment and implementation, and an increase in rent expense resulting from the sale of the Erlanger East POB.

Depreciation and amortization expense decreased from $27 million in fiscal year 2013 to $26 million in fiscal year 2014 due to decreased capital spending. Depreciation and amortization expense increased from $26 million in fiscal year 2012 to $27 million in fiscal year 2013 due, in part, to the addition of the Erlanger East emergency room.

Interest expense, including gain (or loss) on mark-to-market of interest rate swaps, increased from $7 million in fiscal year 2013 to $9 million in fiscal year 2014. The market value of the liability for the mark-to-market of interest rate swaps increased by $.9 million in fiscal year 2014 compared to an increase of $2.3 million in fiscal year 2013. Interest expense, including gain (or loss) on mark-to-market of interest rate swaps, decreased from $11 million in fiscal year 2012 to $7 million in fiscal year 2013. The market value of the liability for the mark-to-market of interest rate swaps increased by $2.3 million in fiscal year 2013 compared to a decrease of $1.1 million in fiscal year 2012.

OUTLOOK

The State of Tennessee continues to review the TennCare program (the State's Medicaid program). For fiscal years 2012 and 2013, the State passed a Hospital Coverage Fee to offset shortfalls in the State's budget for TennCare. The fee remained intact and TennCare rates were stable in fiscal year 2014. There could be possible TennCare rate changes in fiscal year 2015 as a result of rate variation initiatives. Out-of-state Medicaid and TennCare changes would affect the Primary Health System's bottom line with TennCare and Medicaid patients representing approximately 22% of the payer mix. Self Pay patients represent approximately 10% 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 33% of the payer mix.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Management's Discussion and Analysis - Continued

Years Ended June 30, 2014 and 2013

During fiscal year 2014, the Primary Health 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 $19.6 million of additional federal funding for fiscal year 2014. The Primary Health System will receive this funding annually as long as the current TennCare waiver is intact.

The Primary Health System also secured a 5-year partnership agreement with BlueCross BlueShield of Tennessee (BCBST) to be the exclusive provider for new members under the health insurance exchange. BCBST is Tennessee's largest insurer and Chattanooga's largest provider. In addition to the exclusivity, the partnership included a $1M innovation grant and a combined marketing effort specifically aimed at major Chattanooga employers. The partnership provides for a more predictable, longer-term stable relationship with BCBST.

The Primary Health System recognized Essential Access payments totaling $12.8 million from the State of Tennessee for fiscal year 2014, an increase of $2.2 million from fiscal year 2013. Disproportionate share payments were not approved by Federal government for fiscal year 2014. The Primary Health System received Disproportionate Share Payments of $8.5 million in fiscal year 2013. The Primary Health System recognized Essential Access and Disproportionate Share payments totaling $19.1 million from the State of Tennessee for fiscal year 2013, a decrease of $1.5 million from fiscal year 2012. Additionally, the Primary Health System recognized trauma funding of $.9 million in fiscal year 2014 compared to $1.1 million in fiscal year 2013 and $1.0 million in fiscal year 2012. Payments from the State of Tennessee for the fiscal year 2015 are expected to be consistent with the fiscal year 2014. 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 fiscal years 2014 and 2013.

Several initiatives continue to be underway to increase the Primary Health System's profitable position for the upcoming fiscal year. Operating improvements are being implemented to continue to reduce expenses and grow surgical volumes. Increased surgery volumes are essential to the financial health of the Primary Health System.

Audited Combined Financial Statements

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Combined Statements of Net Position - Continued

	June 30, 2014	
	Primary Health System	*Discretely Presented Component Units*
CURRENT ASSETS:		
Cash and cash equivalents	$ 44,202,064	$ 765,461
Temporary investments	1,384,865	5,564,277
Assets limited as to use available for current liabilities	7	-
Patient accounts receivable, net	79,428,961	1,950,888
Estimated amounts due from third party payers	11,408,963	-
Due from other governments	126,882	369,250
Inventories	11,612,639	1,133,754
Receivable from Hutcheson Medical Center	20,550,000	-
Other current assets	14,091,719	1,391,485
TOTAL CURRENT ASSETS	182,806,100	11,175,115
NET PROPERTY, PLANT AND EQUIPMENT	148,545,204	9,005,633
LONG-TERM INVESTMENTS, for working capital	326,139	-
ASSETS LIMITED AS TO USE	131,928,433	-
OTHER ASSETS:		
Prepaid bond insurance	2,093,412	-
Equity in discretely presented component units and other	14,124,270	-
Other assets	437,820	946,676
TOTAL OTHER ASSETS	16,655,502	946,676
TOTAL ASSETS	480,261,378	21,127,424
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts from debt refunding	723,313	-
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 480,984,691	$ 21,127,424
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 41,948,260	$ 1,461,825
Accrued salaries and related liabilities	14,805,150	856,123
Estimated amounts due to third party payers	-	109,881
Due to other governments	369,250	126,882
Current portion of long-term debt and capital lease obligations	10,809,288	616,369
Other current liabilities	4,648,355	175,587
TOTAL CURRENT LIABILITIES	72,580,303	3,346,667
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	159,321,067	3,143,710
PENSION AND POST-EMPLOYMENT BENEFIT OBLIGATIONS	26,680,336	-
OTHER LONG-TERM LIABILITIES	23,913,836	-
TOTAL LIABILITIES	282,495,542	6,490,377
DEFERRED INFLOWS OF RESOURCES		
Deferred gain from sale-leaseback	3,935,725	-
NET POSITION:		
Unrestricted	190,840,242	9,316,184
Net investment in capital assets	1,234,111	5,320,863
Restricted expendable	2,479,071	-
TOTAL NET POSITION	194,553,424	14,637,047
LIABILITES, DEFERRED OUTFLOWS OF RESOURCES AND NET POSITION	$ 480,984,691	$ 21,127,424

See notes to combined financial statements.

SUPPLEMENTAL- 1
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CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Combined Statements of Net Position - Continued

	June 30, 2013 (Restated)	
	Primary Health System	*Discretely Presented Component Units*
CURRENT ASSETS:		
Cash and cash equivalents	$ 17,250,905	$ 930,587
Temporary investments	13,797,542	2,938,131
Assets limited as to use available for current liabilities	28,275	-
Patient accounts receivable, net	73,561,669	2,408,177
Estimated amounts due from third party payers	3,116,389	-
Due from other governments	528,032	377,239
Inventories	11,861,728	1,161,097
Receivable from Hutcheson Medical Center	20,550,000	-
Other current assets	20,129,320	1,917,719
TOTAL CURRENT ASSETS	160,823,860	9,732,950
NET PROPERTY, PLANT AND EQUIPMENT	160,973,575	9,643,816
LONG-TERM INVESTMENTS, for working capital	1,790,946	1,599,946
ASSETS LIMITED AS TO USE	130,231,028	-
OTHER ASSETS:		
Prepaid bond insurance	2,367,769	-
Equity in discretely presented component units and other	13,639,860	-
Other assets	437,820	858,972
TOTAL OTHER ASSETS	16,445,449	858,972
TOTAL ASSETS	470,264,858	21,835,684
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts from debt refunding	809,251	-
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 471,074,109	$ 21,835,684
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 46,945,723	$ 1,425,315
Accrued salaries and related liabilities	14,015,721	910,318
Estimated amounts due to third party payers	-	93,625
Due to other governments	377,239	528,032
Current portion of long-term debt and capital lease obligations	8,058,625	556,698
Other current liabilities	2,194,117	838,223
TOTAL CURRENT LIABILITIES	71,591,425	4,352,211
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	170,179,424	3,445,959
PENSION AND POST-EMPLOYMENT BENEFIT OBLIGATIONS	17,406,052	-
OTHER LONG-TERM LIABILITIES	25,100,226	-
TOTAL LIABILITIES	284,277,127	7,798,170
DEFERRED INFLOWS OF RESOURCES		
Deferred gain from sale-leaseback	4,400,481	-
NET POSITION:		
Unrestricted	170,051,736	8,321,046
Net investment in capital assets	10,125,742	5,716,468
Restricted expendable	2,219,023	-
TOTAL NET POSITION	182,396,501	14,037,514
LIABILITES, DEFERRED OUTFLOWS OF RESOURCES AND NET POSITION	$ 471,074,109	$ 21,835,684

See notes to combined financial statements.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Combined Statements of Revenue, Expenses and Changes in Net Position - Continued

	Year Ended June 30, 2014	
	Primary Health System	*Discretely Presented Component Units*
OPERATING REVENUE:		
Charges for services:		
Net patient service revenue	$ 571,264,197	$ 11,231,722
Other revenue	20,718,399	17,098,407
TOTAL OPERATING REVENUE	591,982,596	28,330,129
OPERATING EXPENSES:		
Salaries, wages and benefits	305,113,185	13,638,588
Supplies and other expenses	122,623,180	10,246,727
Purchased services	117,156,784	2,573,864
Insurance and taxes	2,988,771	379,274
Depreciation	26,182,683	1,109,747
TOTAL OPERATING EXPENSES	574,064,603	27,948,200
OPERATING INCOME	17,917,993	381,929
NONOPERATING REVENUE (EXPENSES):		
Gain on disposal of assets	371,296	18,496
Interest and investment income, net of fees	245,537	397,461
Net gain from discretely presented component units and other	484,410	-
Interest expense	(8,559,590)	(181,803)
Provision for income taxes	-	(16,550)
Change in mark-to-market of interest rate swaps	873,783	-
NET NONOPERATING REVENUE (EXPENSES)	(6,584,564)	217,604
INCOME BEFORE CONTRIBUTIONS	11,333,429	599,533
Operating contributions	382,825	-
Capital contributions	440,669	-
CHANGE IN NET POSITION	12,156,923	599,533
NET POSITION AT BEGINNING OF YEAR	182,396,501	14,037,514
NET POSITION AT END OF YEAR	$ 194,553,424	$ 14,637,047

See notes to combined financial statements.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Combined Statements of Revenue, Expenses and Changes in Net Position - Continued

	Year Ended June 30, 2013 (Restated)	
	Primary Health System	*Discretely Presented Component Units*
OPERATING REVENUE:		
Charges for services:		
Net patient service revenue	$ 526,139,300	$ 11,345,856
Other revenue	18,969,187	16,241,907
TOTAL OPERATING REVENUE	545,108,487	27,587,763
OPERATING EXPENSES:		
Salaries, wages and benefits	297,831,739	13,607,440
Supplies and other expenses	110,970,317	10,199,559
Purchased services	114,011,044	2,981,048
Insurance and taxes	2,476,434	295,336
Depreciation	26,856,073	1,045,235
TOTAL OPERATING EXPENSES	552,145,607	28,128,618
OPERATING LOSS	(7,037,120)	(540,855)
NONOPERATING REVENUE (EXPENSES):		
Gain on disposal of assets	244,660	590,326
Interest and investment income, net of fees	24,827	104,642
Net loss from discretely presented component units and other	(261,887)	(175,000)
Interest expense	(9,190,977)	(208,669)
Provision for income taxes	-	(8,663)
Change in mark-to-market of interest rate swaps	2,256,035	-
NET NONOPERATING REVENUE (EXPENSES)	(6,927,342)	302,636
LOSS BEFORE CONTRIBUTIONS	(13,964,462)	(238,219)
Operating distributions	7,248	-
Capital contributions/other, net	220,977	-
CHANGE IN NET POSITION	(13,736,237)	(238,219)
NET POSITION AT BEGINNING OF YEAR, as previously reported	199,949,930	14,275,733
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(3,817,192)	-
NET POSITION AT BEGINNING OF YEAR	196,132,738	14,275,733
NET POSITION AT END OF YEAR	$ 182,396,501	$ 14,037,514

See notes to combined financial statements.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Combined Statements of Cash Flows - Continued

	Primary Health System Year Ended June 30, 2014	*2013*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from third-party payers and patients	$ 561,765,342	$ 527,371,215
Payments to vendors and others for supplies, purchased services, and other expenses	(245,573,098)	(217,039,131)
Payments to and on behalf of employees	(295,049,472)	(297,118,972)
Other receipts	22,685,770	23,375,977
NET CASH PROVIDED BY OPERATING ACTIVITIES	43,828,542	36,589,089
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Contributions	382,825	7,248
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets, net	(13,929,432)	(30,339,955)
Principal paid on bonds, capital lease obligations and other	(8,048,272)	(7,900,842)
Proceeds from sale of assets	81,660	473,130
Interest payments on long-term debt	(8,258,717)	(8,971,728)
Capital contributions	440,669	220,977
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(29,714,092)	(46,518,418)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest, dividends, and net realized gains (losses) on investments	245,537	2,468,950
Change in temporary and long-term investments for working capital	13,877,484	(815,435)
Advances under note agreeements	-	(8,050,000)
Net cash provided by (transferred to) assets limited as to use	(1,669,137)	5,749,002
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	12,453,884	(647,483)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	26,951,159	(10,569,564)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17,250,905	27,820,469
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 44,202,064	$ 17,250,905

See notes to combined financial statements.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Combined Statements of Cash Flows - Continued

	Primary Health System Year Ended June 30, 2014	*2013*
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	$ 17,917,993	$ (7,037,120)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	26,182,683	26,856,073
Amortization of other liabilities	(393,607)	(620,506)
Changes in assets and liabilities:		
Patient accounts receivable, net	(5,867,292)	3,079,769
Estimated amounts due from third party payers, net	(8,292,574)	(3,497,287)
Inventories and other assets	6,687,840	6,261,212
Accounts payable and accrued expenses	(4,916,463)	10,187,021
Accrued salaries and related liabilities	789,429	(135,013)
Other current and long-term liabilities	11,720,533	1,494,940
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 43,828,542	$ 36,589,089

SUPPLEMENTAL INFORMATION:

During the year ended June 30, 2013, The Primary Health System received a commitment from a third party to reimburse the Primary Health System for $1,900,000 in renovations performed at Erlanger East. The Primary Health System also recorded a liability in the amount of $1,900,000 that will be amortized (and recognized as operating revenue) over the lease term of 20 years.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements

Years Ended June 30, 2014 and 2013

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Chattanooga-Hamilton County Hospital Authority d/b/a Erlanger Health System (the Primary Health 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 Chattanooga-Hamilton County Hospital Authority consists of the Primary Health System and its aggregate discretely presented component units as disclosed below.

The Primary Health System provides comprehensive healthcare services throughout Hamilton and Bledsoe counties, as well as outlying areas in southeastern Tennessee and north Georgia. These services are provided primarily through the hospital and other facilities located on the Baroness campus of Erlanger Medical Center. The Primary Health System also operates other hospitals and clinics throughout the area. The Primary Health System is considered the primary governmental unit for financial reporting purposes. As required by accounting principles generally accepted in the United States of America, these combined financial statements present the Primary Health System and its component units. The component units discussed below are included in the Primary Health System's reporting entity because of the significance of their operational or financial relationships with the Primary Health System.

The primary mission of the Primary Health System and its component units is to provide healthcare services to the citizens of Chattanooga, Hamilton County and the surrounding area. Only those activities directly associated with this purpose are considered to be operating activities. Other activities that result in gains or losses unrelated to the Primary Health System's primary mission are considered to be nonoperating.

Erlanger Health Plan Trust, Plaza Surgery, G.P., ContinuCare HealthServices, Inc., Cyberknife of Chattanooga, LLC, and UT-Erlanger Medical Group, Inc. are legally separate organizations which the Primary Health System has determined are component units of the Primary Health System.

Blended Component Units: The financial statements of Erlanger Health Plan Trust include assets limited as to use totaling $1,627,033 and $1,619,834 as of June 30, 2014 and 2013, respectively, and net investment income totaling $7,199 and $9,987 for the years ended June 30, 2014 and 2013, respectively, that are blended in the combined financial statements of the Primary Health System. The board of the Erlanger Health Plan Trust is substantially the same as that of the Primary Health System and the Primary Health System has operational responsibility.

Plaza Surgery, G.P. (Plaza) was a joint venture which operated an ambulatory surgery center on the Primary Health System's campus. In 2012, the Primary Health System purchased all the remaining outstanding units of Plaza and its operations were transferred to the Primary Health

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

System, although Plaza remains a separate legal entity. Plaza had no assets, liabilities or operations in 2014 or 2013.

Discretely Presented Component Units: The discretely presented component units column in the combined financial statements includes the financial data of the Primary Health System's other component units. They are reported in a separate column to emphasize that they are legally separate from the Primary Health System. See the combined, condensed financial information in Note Q.

1. ContinuCare HealthServices, Inc. and subsidiary (ContinuCare) provide health and supportive services to individuals in their homes in the Hamilton County and north Georgia areas. ContinuCare also provides retail pharmacy goods and services at four locations in Hamilton County. The Primary Health System owns 100% of the stock of ContinuCare. Separately audited financial statements for ContinuCare HealthServices, Inc. may be obtained by mailing a request to 1501 Riverside Drive, Suite 140, Chattanooga, Tennessee 37406.

2. Cyberknife of Chattanooga, LLC (Cyberknife) provides radiation therapy services, specifically robotic stereotactic radiosurgical services, through the use of a cyberknife stereotactic radiosurgery system on the Primary Health System's campus. At June 30, 2014 and 2013 the Primary Health System owns 51% of Cyberknife's outstanding membership units and Cyberknife is fiscally dependent on the Primary Health System.

   A condition of admission as a Member of Cyberknife, is to deliver limited guaranties, guaranteeing prorata repayment of indebtedness of Cyberknife incurred to finance its equipment costs and its working capital needs. As of June 30, 2014 and 2013, total debt outstanding was $3,679,502 and $3,916,667, respectively, with payments due through 2016. Management believes that the Primary Health System will not be required to make any payments related to the guarantee of this indebtedness.

3. UT-Erlanger Medical Group, Inc. (the Medical Group) was formed on June 30, 2011 and will provide professional healthcare and related services to the public through 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. However, based upon the significance of the Medical Group's potential operation to the Primary Health System, management believes its exclusion would be misleading and as such, includes the Medical Group as a component unit. The Medical Group is currently not active.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

Erlanger Health System Foundations (the Foundation): The Foundation assists the Primary Health System to promote and develop charitable and educational opportunities as they relate to healthcare services provided by the Primary Health System. The Primary Health System is not financially accountable for the Foundation and as a result the Foundation has not been included in the combined financial statements.

Contributions from the Foundation totaling approximately $1,170,000 and $920,000 for the years ended June 30, 2014 and 2013, respectively, were recognized as contribution revenue by the Primary Health System. The Primary Health System provided support to the Foundation of $730,000 in 2014 and $347,000 in 2013.

Use of Estimates: The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Enterprise Fund Accounting: The Primary Health System and its blended component units utilize the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

Recently Issued or Effective Accounting Pronouncements: In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement amends the net asset reporting requirements of GASB Statement No. 34 and other pronouncements by incorporating deferred outflows and inflows of resources into the definitions of the required components of the residual measure and renaming that measure as net position, rather than net assets. The requirements of this Statement were adopted by the Primary Health System in fiscal year 2013 and the adoption did not have a material impact on the combined financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes reporting standards that reclassify items previously reported as assets or liabilities as deferred inflows or outflows and was adopted by the Primary Health System in 2014. GASB Statement No. 65 further requires that costs associated with the issuance of long-term debt, other than insurance costs, be expensed in the period incurred, rather than deferred and amortized over the term of the related debt. As a result of the retroactive application of this guidance, certain amounts previously reported as of and for the year ended June 30, 2013, have been restated and a cumulative effect adjustment has been recorded to the net position as of June 30, 2012. The effect of this application on previously reported combined financial statement amounts for the Primary Health System reduced deferred financing cost

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

reported at June 30, 2013 by $3,466,006 and reduced interest expense for the year ended June 30, 2013 by $351,186.

Further, GASB 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. The 2013 combined financial statements have been reclassified to conform with these provisions of Statement No. 65.

In June 2012, the 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 Management Date*, which is effective concurrent with Statement No. 68. Among other requirements, the Primary Health System will have to record a net pension liability that is based on fiduciary plan net position rather than on plan funding an provide explanatory disclosures in the notes to the financial statements. These Statements are required for fiscal years beginning after June 15, 2014 with early adoption encouraged. These Statements will be effective for the Primary Health System in 2015 and management and its actuaries are currently evaluating its impact on the combined financial statements.

Net Patient Service Revenue/Receivables: Net patient service revenue is reported on the accrual basis in the period in which services are provided at rates which reflect the amount expected to be collected. Net patient service revenue includes amounts estimated by management to be reimbursable by third-party payer programs under payment formulas in effect. Net patient revenue also includes an estimated provision for bad debts based upon management's evaluation of collectability based upon the age of the receivables and other criteria, such as payer classification and management's assumptions about conditions it expects to exist and courses of action it expects to take. The Primary Health System's policies do not require collateral or other security for accounts receivable, although the Primary Health System routinely accepts assignment or is otherwise entitled to receive patient benefits payable under health insurance programs, plans or policies. Supplemental payments from the State of Tennessee are recognized when determinable (see Note B).

Charity Care: The Primary Health 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 Primary Health System for other patients. Essentially, these policies define charity services as those services for which minimal payment is anticipated. In assessing a patient's inability to pay, the County and the Primary Health System utilize the generally recognized poverty income levels, but also include

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certain cases where incurred charges are significant when compared to the income of the patient. These charges are not included in net patient service revenue.

Cash Equivalents: The Primary Health System considers all highly liquid investments with maturities of three months or less when purchased, excluding amounts whose use is limited by board designation, held by trustees under indenture agreement, or otherwise restricted as to use, to be cash equivalents.

Inventories: Inventories consist principally of medical and surgical supplies, general store supplies, and pharmacy items and are stated at lower of cost (first-in, first-out) or fair market value.

Investments: The Primary Health System's investments (including assets limited as to use) are reported at fair market value based on quoted market prices. Assets limited as to use include funds designated by the Board, funds held by trustees under trust indentures, and funds restricted by donors or grantors for specific purposes. The Primary Health System considers those investments with maturities of more than three months when purchased, maturing in more than one year and whose use is not limited by board designation, held by trustees under indenture agreement, or otherwise restricted as to use, to be long-term investments. Investments, including assets limited as to use, consist of United States government, government agency and municipal bonds, corporate debt and other short-term investments.

Temporary Investments: The Primary Health System considers all highly liquid investments with maturities of more than three months when purchased and maturing in less than one year, excluding amounts whose use is limited by board designation, held by trustees under indenture agreement, or otherwise restricted as to use, to be temporary investments. Temporary investments consist primarily of United States government agency bonds, municipal bonds and commercial paper.

Derivative Instruments: The Primary Health System records all derivatives as assets or liabilities on the combined statements of net position at estimated fair value and includes credit value adjustments. The Primary Health System's derivative holdings consist of interest rate swap agreements. Since these derivatives have not been determined to be effective, the gain or loss resulting from changes in the fair value of the derivatives is recognized in the accompanying combined statements of revenue, expenses and changes in net position. The Primary Health System's objectives in using derivatives are to take advantage of the differences between taxable and tax-exempt debt, and manage exposure to interest rate risks associated with various debt instruments (see Note N).

Net Property, Plant and Equipment: Property, plant and equipment is recorded on the basis of cost. Donated assets are recorded at their fair market value at the date of donation. Leases that

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are substantially installment purchases of property are recorded as assets and amortized over their estimated useful lives ranging from three to thirty years; related amortization is included in depreciation expense. Depreciation expense is computed over estimated service lives of the respective classes of assets using the straight-line method. The Primary Health System has established a capitalization threshold for property, plant and equipment of $2,500 except for computer equipment, which has a threshold of $1,000. Interest expense and interest income on borrowed funds related to construction projects are capitalized during the construction period, if material. Costs of maintenance and repairs are charged to expense as incurred.

The Primary Health System reviews the carrying value of capital assets if facts and circumstances indicate that recoverability may be impaired. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The Primary Health System did not experience any prominent events or changes in circumstances affecting capital assets which would require determination as to whether impairment of a capital asset has occurred during the years ended June 30, 2014 and 2013.

Compensated Absences: The Primary Health System recognizes an expense and accrues a liability for employees' paid annual leave and short-term disability in the period in which the employees' right to such compensated absences are earned. Liabilities expected to be paid within one year are included as accrued salaries and related liabilities in the accompanying combined statements of net position.

Prepaid Bond Insurance: Deferred financing costs consist of insurance costs associated with bond issues and are being amortized, generally, over the terms of the respective debt issues by the effective interest method.

Income Taxes: The Primary Health System is exempt from income taxes under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, it qualifies for exemption from federal income taxes pursuant to IRC Section 115 as an instrumentality of the State of Tennessee. Therefore, no provision for income taxes has been recognized in the accompanying combined financial statements for the Primary Health System. Certain tax returns that are required for the years ended June 30, 2010 through 2013 are subject to examination by taxing authorities.

As a for-profit entity, ContinuCare is subject to state and federal income taxes. ContinuCare HealthServices, Inc. and its subsidiary file consolidated federal income tax returns separately from the Primary Health System. At June 30, 2014 and 2013, ContinuCare had no significant uncertain tax positions. Tax returns for the years ended June 30, 2008 through 2013 are subject to examination by taxing authorities.

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As a Limited Liability Corporation, Cyberknife, a discretely presented component unit, is subject to State of Tennessee income taxes. At June 30, 2014 and 2013, Cyberknife had no significant uncertain tax positions. Tax returns for the years ended June 30, 2010 through 2013 are subject to examination by taxing authorities.

Contributed Resources: Resources restricted by donors for specific operating purposes are held as restricted funds and are recognized as operating or capital contributions in the accompanying combined financial statements. When expended for the intended purpose, they are reported as operating distributions and are recognized as other operating revenue. Contributed resources consist of amounts restricted by donors for specific purposes. Fundraising expenses are netted against contributions recognized.

Net Position: The net position of the Primary Health System is classified into three components. *Net investment in capital assets* consists of capital and other assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The *restricted expendable* net position consists of assets that must be used for a particular purpose that are either externally imposed by creditors, grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. *The unrestricted net position* is remaining assets that do not meet the definition of *net investment in capital assets* or *restricted expendable.*

Fair Value of Financial Instruments: The carrying amounts reported in the combined statements of net position for cash, accounts receivable, investments, accounts payable and accrued expenses approximate fair value.

The carrying value of long-term debt and capital lease obligations (including the current portion) was $170,130,355 as of June 30, 2014 and $178,238,049 as of June 30, 2013. The estimated fair value of long-term debt and capital lease obligations (including current portion) was $175,879,323 and $186,227,537 as of June 30, 2014 and 2013, respectively. The fair value of long-term debt related to fixed interest long-term debt and capital lease obligations was estimated using discounted cash flows, based on the Primary Health System's incremental borrowing rates or from quotes obtained from investment advisors. The fair value of long-term debt related to variable rate debt approximates its carrying value.

Subsequent Events: The Primary Health System evaluated all events or transactions that occurred after June 30, 2014 through September 17, 2014 , the date the combined financial statements were available to be issued.

Reclassifications: In addition to the adoption of GASB Statement 65, discussed previously, certain reclassifications have been made to the 2013 combined financial statements to conform with the 2014 combined financial statement presentation.

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NOTE B--NET PATIENT SERVICE REVENUE

A reconciliation of the amount of services provided to patients at established rates by the Primary Health System to net patient service revenue as presented in the combined statements of revenue, expenses and changes in net position for the years ended June 30, 2014 and 2013 is as follows:

	Primary Health System	
	2014	*2013*
Inpatient service charges	$ 1,053,446,232	$ 986,725,639
Outpatient service charges	810,507,858	706,628,068
Gross patient service charges	1,863,954,090	1,693,353,707
Less: Contractual adjustments and other discounts	1,099,744,626	991,945,605
Charity care	109,777,939	101,729,252
Estimated provision for bad debts	83,167,328	73,539,550
	1,292,689,893	1,167,214,407
Net patient service revenue	$ 571,264,197	$ 526,139,300

Charity Care and Community Benefit: The Private Act of the State of Tennessee establishing the Primary Health System obligates the Primary Health 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 totaled $1,500,000 for fiscal year 2014 and 2013. Total charity care charges for services provided to the certified indigent residents of Hamilton County (net of the appropriation) were approximately $19,336,000 and $23,757,000 for the years ended June 30, 2014 and 2013 for the Primary Health System.

In addition to charity care provided to specific patients within the hospital setting, the Primary Health System also provides unreimbursed services to the community which includes free and low cost health screenings. The Primary Health System also hosts health fairs and helps sponsor many other events that are free to the public and are spread throughout the year in various community locations.

The Primary Health System's Community Relations department, which conducts health, wellness, safety education classes and health screenings, includes Erlanger HealthLink Plus, a free adult membership program with over 15,000 members in the Chattanooga Statistical Metropolitan Service Area. The program provides over 16 classes and/or screenings and fitness opportunities per month that are free or at a low cost to members and to the community. These classes and screenings are held in two primary locations with additional classes at satellite locations in the region. As part of Community Relations, Safe & Sound, an injury prevention

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service of Children's Hospital, offers free educational events regarding childhood injury prevention, including free car seat inspection and installation workshops. The Community Relations program utilizes the services of physicians, nurses, volunteers, educators, registered dietitians, social workers, secretaries and management personnel of the Primary Health System. The Primary Health System's consumer call center, Erlanger HealthLink (423-778-LINK) is a free call center staffed by RN's to answer health questions, offer free physician referrals and to register participants in the programs offered by Community Relations, Women's & Infant Services and other departments and divisions of the Primary Health System.

Uncompensated Care Costs: The following table summarizes the estimated total uncompensated care costs provided by Erlanger Medical Center as defined by the State of Tennessee for the years ended June 30, 2014 and 2013:

	2014	*2013*
Uncompensated cost of TennCare/Medicaid	$ 27,610,055	$ 28,228,719
Traditional charity uncompensated costs	33,421,647	33,423,115
Bad debt cost	25,128,811	23,429,117
Total estimated uncompensated care costs	$ 86,160,513	$ 85,080,951

The uncompensated cost of TennCare/Medicaid is estimated by taking the estimated cost of providing care to the TennCare/Medicaid patients less payments from the TennCare and Medicaid programs. The payments exclude revenues from essential access and other, one-time supplemental payments from TennCare of approximately $12,756,000 and $10,615,000 for the years ended June 30, 2014 and 2013, respectively, as such payments are not guaranteed for future periods.

Revenue from Significant Payers: Gross patient service charges related to the Medicare program accounted for approximately 32.7% and 29.6% of the Primary Health System's patient service charges for the years ended June 30, 2014 and 2013, respectively. Gross patient service charges related to the TennCare/Medicaid programs accounted for approximately 21.6% and 24.1% of the Primary Health System's patient service charges for the years ending June 30, 2014 and 2013, respectively. TennCare typically reimburses providers at an amount less than their cost of providing services to TennCare patients. At June 30, 2014 and 2013, the Primary Health System has a credit concentration related to the Medicare and TennCare programs.

During 2014 and 2013, the Primary Health System recognized revenue from these programs related to disproportionate share payments and trauma fund payments of approximately $926,000 and $9,622,000, respectively. Such amounts are subject to audit and future distributions under these programs are not guaranteed. Additionally, in 2014 the Primary Health System received a

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net payment of $19,587,000 from the Public Hospital Supplemental Payment Pool. Such amounts are expected to be received as long as the current TennCare waiver is intact.

Laws and regulations governing the Medicare and TennCare/Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates, as they relate to revenue recognized from these programs, will change by a material amount in the near term. The estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined. Final determination of amounts earned under prospective payment and cost reimbursement activities is subject to review by appropriate governmental authorities or their agents. Management believes that adequate provisions have been made for adjustments that may result from final determination of amounts earned under Medicare and Medicaid programs. The effect of prior year cost report settlements, or changes in estimates, increased net patient service revenue by approximately $2,310,000 in 2014 and by approximately $2,163,000 in 2013.

The Primary Health System has also entered into reimbursement agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates, per diems and discounts from established charges.

NOTE C--CASH AND CASH EQUIVALENTS

Cash and cash equivalents reported on the combined statements of net position include cash on hand and deposits with financial institutions including demand deposits and certificates of deposit.

The carrying amount of cash and cash equivalents consists of the following at June 30:

	Primary Health System	
	2014	*2013*
Demand deposits	$ 42,001,383	$ 15,087,535
Cash on hand	9,979	9,904
Cash equivalents	2,190,702	2,153,466
	$ 44,202,064	$ 17,250,905

Cash equivalents include money market accounts that are held in investment accounts and meet the definition of a cash equivalent.

Bank balances consist of the following at June 30:

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	Primary Health System	
	2014	*2013*
Insured (FDIC)	$ 583,952	$ 622,493
Collateralized under the State of Tennessee Bank Collateral Pool	42,479,795	21,221,755
Other	-	272,275
	$ 43,063,747	$ 22,116,523

The Primary Health System's deposits would be exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or are collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor government's name. The risk is that, in the event of the failure of a depository financial institution, the Primary Health System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

NOTE D--DISAGGREGATION OF RECEIVABLE AND PAYABLE BALANCES

Patient Accounts Receivable, Net: Patient accounts receivable and related allowances are as follows at June 30:

	Primary Health System	
	2014	*2013*
Gross patient accounts receivable	$ 302,865,848	$ 270,824,481
Estimated allowances for contractual adjustments and uncollectible accounts	(223,436,887)	(197,262,812)
Net patient accounts receivable	$ 79,428,961	$ 73,561,669

Other Current Assets: Other current assets consist of the following at June 30:

	Primary Health System	
	2014	*2013*
Prepaid expenses	$ 5,662,522	$ 5,205,938
Other receivables	8,429,197	14,923,382
Total other current assets	$ 14,091,719	$ 20,129,320

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Years Ended June 30, 2014 and 2013

Accounts Payable and Accrued Expenses: Accounts payable and accrued expenses consist of the following at June 30:

	Primary Health System	
	2014	*2013*
Due to vendors	$ 39,008,464	$ 44,847,075
Other	2,939,796	2,098,648
Total accounts payable and accrued expenses	$ 41,948,260	$ 46,945,723

Other Long-Term Liabilities: Other long-term liabilities, and the related activity, consist of the following at June 30:

	Balance at Beginning of Year	*Unearned Revenue*	*Unearned Revenue Recognized*	*Change in Estimate*	*Other*	*Balance at End of Year*
2014						
Compensated absences	$ 10,638,408	$ -	$ -	$ -	$ -	$ 10,638,408
Medical malpractice	4,985,000	-	-	81,000	-	5,066,000
Job injury program	1,253,139	-	-	-	-	1,253,139
Interest rate swaps	4,856,429	-	-	-	(873,783)	3,982,646
Other	3,367,250	-	(393,607)	-	-	2,973,643
Total other long-term liabilities	$ 25,100,226	$ -	$ (393,607)	$ 81,000	$ (873,783)	$ 23,913,836
2013						
Compensated absences	$ 10,638,408	$ -	$ -	$ -	$ -	$ 10,638,408
Medical malpractice	5,462,500	-	-	(477,500)	-	4,985,000
Job injury program	916,104	-	-	337,035	-	1,253,139
Interest rate swaps	7,112,464	-	-	-	(2,256,035)	4,856,429
Other	623,000	2,900,000	(155,750)	-	-	3,367,250
Total other long-term liabilities	$ 24,752,476	$ 2,900,000	$ (155,750)	$ (140,465)	$ (2,256,035)	$ 25,100,226

NOTE E--NET PROPERTY, PLANT AND EQUIPMENT

Net property, plant and equipment activity for the Primary Health System for the years ended June 30, 2014 and 2013 consisted of the following:

	Balance at June 30, 2012	*Additions*	*Reductions/ Transfers*	*Balance at June 30, 2013*	*Additions*	*Reductions/ Transfers*	*Balance at June 30, 2014*
Capital assets:							
Land and improvements	$ 25,355,906	$ 298,962	$ -	$ 25,654,868	$ 312,049	$ -	$ 25,966,917
Buildings	223,875,935	6,845,858	-	230,721,793	2,900,701	-	233,622,494
Equipment	350,516,661	20,581,177	(4,240,082)	366,857,756	14,813,614	(4,980,876)	376,690,494
	599,748,502	27,725,997	(4,240,082)	623,234,417	18,026,364	(4,980,876)	636,279,905

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

	Balance at June 30, 2012	*Additions*	*Reductions/ Transfers*	*Balance at June 30, 2013*	*Additions*	*Reductions/ Transfers*	*Balance at June 30, 2014*
Accumulated depreciation :							
Land and improvements	(11,225,230)	(398,356)	-	(11,623,586)	(449,132)	-	(12,072,718)
Buildings	(161,792,780)	(7,808,629)	319,543	(169,281,866)	(6,812,804)	-	(176,094,670)
Equipment	(275,787,226)	(18,649,088)	3,692,069	(290,744,245)	(18,920,746)	4,805,755	(304,859,236)
	(448,805,236)	(26,856,073)	4,011,612	(471,649,697)	(26,182,682)	4,805,755	(493,026,624)
Capital assets net of accumulated depreciation	150,943,266	869,924	(228,470)	151,584,720	(8,156,318)	(175,121)	143,253,281
Construction in progress	6,774,897	24,935,626	(22,321,668)	9,388,855	10,852,113	(14,949,045)	5,291,923
	$ 157,718,163	$ 25,805,550	$ (22,550,138)	$ 160,973,575	$ 2,695,795	$ (15,124,166)	$ 148,545,204

Depreciation expense totaled $26,182,683 and $26,856,073 for the years ended June 30, 2014 and 2013, respectively. Construction in progress at June 30, 2014 consists of various projects for additions and renovations to the Primary Health System's facilities. The estimated cost to complete construction projects is approximately $10,320,000.

During 2012, the Primary Health System entered into an agreement to sell certain professional office buildings (POBs) and concurrently entered into agreements to lease space from the purchaser. The sales price of the POBs was approximately $13,333,000, and a gain of approximately $6,695,000 was realized. Since the Primary Health System is leasing back certain space, a portion of the gain has been deferred and is being recognized over the terms of the leases. Amortization of the deferred gain is included in non-operating revenue (expenses) for the years ended June 30, 2014 and 2013.

The leases entered into (or committed to) under this sale/leaseback agreement include certain leases which meet the criteria for capitalization and are included in Note M.

NOTE F--INVESTMENTS AND ASSETS LIMITED AS TO USE

The Primary Health System invests in United States government and agency bonds, municipal bonds, corporate debt, certificates of deposit and short-term money market investments that are in accordance with the Primary Health System's investment policy. Temporary investments at June 30, 2014 consist primarily of cash equivalents, government bonds and commercial paper.

The carrying and estimated fair values for long-term investments, and assets limited as to use, by type, at June 30 are as follows:

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	Primary Health System	
	2014	*2013*
U.S. Government and agency bonds, including municipal bonds, mutual funds, and other	$ 108,694,164	$ 111,569,814
Corporate bonds and commercial paper	7,004,219	4,348,798
Short-term investments and cash equivalents	16,556,196	16,131,637
Total investments and assets limited as to use	$ 132,254,579	$ 132,050,249

Assets limited as to use are classified as follows:

	Primary Health System	
	2014	*2013*
Capital investment funds	$ 101,463,961	$ 99,572,404
Under bond indentures - held by trustees	20,879,910	20,901,235
Self-insurance trust	6,098,629	6,318,010
Restricted by donors and other	3,485,940	3,467,654
	131,928,440	130,259,303
Less current portion	(7)	(28,275)
Total assets whose use is limited	$ 131,928,433	$ 130,231,028

Assets limited as to use for capital improvements are to be used for the replacement of property and equipment or for any other purposes so designated.

Funds held by trustees under bond indenture at June 30 are as follows:

	Primary Health System	
	2014	*2013*
Debt service reserve funds	$ 20,725,843	$ 20,718,915
Principal and interest funds	7	28,275
Other funds	154,060	154,045
Total funds held by trustees under bond indenture	$ 20,879,910	$ 20,901,235

These funds held by trustees consist primarily of United States government agency obligations, state and local government obligations, corporate debt, and other short-term investments and cash equivalents. The debt service reserve fund is to be used only to make up any deficiencies in other funds related to the Hospital Revenue and Refunding Bonds Series 1997A, Series 1998A, Series 2000 and Series 2004. The principal and interest funds are to be used only to pay

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principal and interest, respectively, on the Series 1997A, Series 1998A, Series 2000 and Series 2004 bonds.

The Primary Health System's investment policy specifies the types of investments which can be included in board-designated assets limited as to use, as well as collateral or other security requirements. The investment policy also specifies the maximum maturity of the portfolio of board-designated assets. Assets limited as to use and held by trustees are invested as permitted by the bond indenture.

Custodial Credit Risk: The Primary Health System's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Primary Health System, and are held by either the counterparty or the counterparty's trust department or agent but not in the Primary Health System's name. The risk is that, in the event of the failure of the counterparty to a transaction, the Primary Health System will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

As of June 30, 2014 and 2013, the Primary Health System's investments, including assets limited as to use, were comprised of various short-term investments, U.S. government and government agency bonds, municipal obligations, corporate bonds, commercial paper, and other U.S. Treasury obligations. Substantially all of the Primary Health System's investments, including assets limited as to use, are uninsured or unregistered. Securities are held by the counterparty, or by its trust department or agent, in the Primary Health System's name.

Concentration of Credit Risk: This is the risk associated with the amount of investments the Primary Health System has with any one issuer that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The Primary Health System's investment policy does not restrict the amount that may be held for any single issuer. At June 30, 2014, none of the Primary Health System's investments with any one issuer exceed 5% of its total investments except certain U.S. Government agencies.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB No. 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government. The Primary Health System's investment policy provides guidelines for its fund managers and lists specific allowable investments.

The credit risk profile of the Primary Health System's investments, including assets limited as to use (excluding U.S. Government securities), as of June 30, 2014, is as follows:

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Investment Type	Balance as of June 30, 2014	Rating				
		AAA	AA	A	BBB	N/A
U.S Government agency bonds	$ 46,375,721	$ 44,799,453	$ 1,576,268	$ -	$ -	$ -
Municipal bonds	7,226,430	2,259,170	3,958,340	1,008,920	-	-
Bond mutual funds and other	5,575,435	5,575,435	-	-	-	-
Corporate bonds and commercial paper	1,428,784	-	-	1,428,784	-	-
Cash equivalents	16,556,196	-	-	-	-	16,556,196
Total investments	$ 77,162,566	$ 52,634,058	$ 5,534,608	$ 2,437,704	$ -	$ 16,556,196

Investment Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Primary Health System's investment policy authorizes a strategic asset allocation that is designed to provide an optimal return over the Primary Health System's investment horizon and within specified risk tolerance and cash requirements.

The distribution of the Primary Health System's investments, including assets limited as to use, and excluding the self-insurance trust, by maturity as of June 30, 2014, is as follows:

Investment Type	Balance as of June 30, 2014	Remaining Maturity				
		12 months or less	13-24 Months	25-60 Months	Over 60 Months	N/A
U.S. Government bonds and agency funds	$ 101,467,734	$ 15,624,278	$ 34,072,420	$ 14,086,664	$ 37,684,372	$ -
Municipal bonds	7,226,430	3,032,240	3,192,400	1,001,790	-	-
Corporate bonds and commercial paper	1,428,784	1,428,784	-	-	-	-
Cash equivalents	16,033,002	16,033,002	-	-	-	-
Total investments	$ 126,155,950	$ 36,118,304	$ 37,264,820	$ 15,088,454	$ 37,684,372	$ -

Additionally, the distribution of the Primary Health System's investments held under the self-insurance trust as of June 30, 2014, is as follows:

Investment Type	Balance as of June 30, 2014	Remaining Maturity				
		24 months or less	25-60 Months	61-120 Months	Over 120 Months	N/A
Bond Mutual Funds	$ 5,575,435	$ -	$ -	$ -	$ -	$ 5,575,435
Cash equivalents	523,194	523,194	-	-	-	-
Total investments	$ 6,098,629	$ 523,194	$ -	$ -	$ -	$ 5,575,435

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Years Ended June 30, 2014 and 2013

NOTE G--LONG-TERM DEBT

Long-term debt at June 30 consists of the following:

	Primary Health System	
	2014	*2013*
Revenue and Refunding Bonds, Series 2004, net of bond discount of $443,199 in 2014 and $532,793 in 2013 and including bond issue premium of $1,302,656 in 2014 and $1,443,483 in 2013	$ 66,859,457	$ 71,955,690
Hospital Revenue Refunding Bonds, Series 2000, including bond issue premium of $258,296 in 2014 and $281,255 in 2013	32,558,296	34,581,255
Hospital Revenue Bonds, Series 1998A, net of bond discount of $265,846 in 2014 and $280,615 in 2013	18,159,154	18,329,385
Hospital Revenue Bonds, Taxable Series 1997A	41,000,000	41,000,000
Total bonds payable	158,576,907	165,866,330
Other Loans and Notes Payable	4,978,158	5,630,515
Capital leases - Note M	6,575,290	6,741,204
	170,130,355	178,238,049
Less: current portion	(10,809,288)	(8,058,625)
	$ 159,321,067	$ 170,179,424

During fiscal year 2011, the Primary Health System entered into a term loan (the Loan) with a financial institution in the maximum amount of $7,000,000 to finance the acquisition of the Lifestyle Center property. The rate of interest on the loan is a fixed rate equal to 5.45%. Monthly payments of principal and interest are payable on the first day of each month for a 10 year term beginning December 1, 2010, with a final payment equal to the unpaid principal plus accrued and unpaid interest due at maturity. The loan contains certain covenants and restrictions. Management believes the Primary Health System was in compliance with all such covenants at June 30, 2014.

During fiscal year 2010, the Primary Health System remarketed the Series 2004 Hospital Revenue Refunding Bonds (Series 2004) and the Series 2000 Hospital Revenue Refunding Bonds (Series 2000), as described below, and converted such bonds from a variable auction rate to a fixed rate.

On January 1, 2004, the Primary Health System issued $85,000,000 insured Series 2004 bonds for the purpose of refunding $80,925,000 of the total outstanding Series 1993 bonds (described

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below). The Primary Health System also utilized the proceeds to pay certain issuance costs and contributed a portion of the bond proceeds in the amount of $1,633,658 to establish a debt service fund.

The Series 2004 bonds were issued on parity, with respect to collateral, with other outstanding bonds, described below. The Series 2004 bonds are also secured by a mortgage on a portion of the Primary Health System's main campus. The Series 2004 bonds mature annually on October 1 beginning in 2010 through 2023 in varying amounts. The Series 2004 bonds maturing after October 1, 2019 (excluding those maturing on October 1, 2023) may be redeemed by the Primary Health System after October 1, 2019 at a redemption price equal to the principal amount plus accrued interest. The bonds maturing on October 1, 2023 may be redeemed prior to maturity pursuant to the extraordinary optional redemption and redemption upon damage or condemnation provisions as described in the Remarketing Memorandum by the Primary Health System after October 1, 2014 at a redemption price equal to 100% of the principal amount plus accrued interest. Interest rates for the outstanding Series 2004 bonds range from 3.0% to 5.0%.

In August 2000, the Primary Health System issued $47,300,000 insured Series 2000 bonds for the purpose of refunding $40,000,000 of then outstanding Series 1987 bonds and funding a debt service reserve fund in an original amount of $4,407,377 and to pay issuance costs. The Series 2000 bonds were issued on parity with other outstanding bond issues. The Series 2000 bonds consist of term bonds maturing on October 1, 2023 and serial bonds maturing on October 1 annually beginning in 2010 through 2025. The bonds maturing on October 1, 2023 are subject to mandatory sinking fund redemption prior to maturity and without premium at the principal amount thereof on October 1. The Series 2000 bonds maturing after October 1, 2014 may be redeemed by the Primary Health System after October 1, 2014 at a redemption price equal to the principal amount plus accrued interest.

Interest rates for the Series 2000 outstanding bonds are as follows:

Series Bonds	- 3.75% to 5.0%
Term Bonds	- 5.0%

The Primary Health System's 1997A and 1998A Hospital Revenue Bonds (Series 1997A and Series 1998A, respectively) were issued to fund capital improvements for Erlanger Medical Center and establish a debt service reserve fund (1998A only) in an original amount of $2,174,125.

The Series 1997A bonds are taxable and are secured on a parity under a Master Trust Indenture with other outstanding bond issues. The 1997A bonds mature beginning in fiscal year 2015 through fiscal year 2028. The 1997A bonds are subject to optional redemption at 100% plus

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accrued interest and interest is payable at a variable auction rate for a 35-day period, which was 0.42% at June 30, 2014 and 0.49% at June 30, 2013.

The Series 1998A insured bonds are tax-exempt and consisted of $6,080,000 serial bonds maturing annually on October 1 of each year through 2013 in varying amounts; and term bonds maturing on October 1, 2018 and 2028 ($5,825,000 and $17,095,000, respectively). Such bonds are secured on parity with other outstanding bonds. The bonds maturing after October 1, 2008 may be redeemed by the Primary Health System after April 1, 2008 at amounts ranging from 100% to 101% of par value plus accrued interest.

Interest rates for the outstanding Series 1998A bonds are as follows:

$ 6,080,000	Serial Bonds	- 4.75% to 5.00%
$ 5,825,000	Term Bonds	- 5.0%
$17,095,000	Term Bonds	- 5.0%

During fiscal year 2002, the Primary Health System defeased $5,320,000 of the 1998A bond issuance because IRS regulations do not permit tax-exempt debenture proceeds to be used to fund for-profit endeavors. These funds were used in the construction of an Ambulatory Surgery Center. The Primary Health System contributed to an escrow account funds generated from its operations sufficient to fund all principal and interest payments for approximately $5,320,000 of debentures until maturity. The Primary Health System was released from being the primary obligor and cannot be held liable for the defeased obligation, of which approximately $4,140,000 remains outstanding at June 30, 2014.

The trust indentures and related documents underlying the bonds contain certain covenants and restrictions. As of June 30, 2014, management believes the Primary Health System is in compliance with all such covenants.

The Primary Health System's scheduled principal and interest payments (estimated for variable rate debt based on rates at June 30, 2014) on bonds payable and other long-term debt (excluding capital leases) are as follows for the years ending June 30:

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Years Ended June 30, 2014 and 2013

	Principal	*Interest*	*Total*
2015	$ 10,613,005	$ 5,868,787	$ 16,481,792
2016	11,637,069	5,391,616	17,028,685
2017	11,723,446	4,945,072	16,668,518
2018	12,674,484	4,515,962	17,190,446
2019	13,242,765	4,001,214	17,243,979
2020-2024	71,002,389	12,068,476	83,070,865
2025-2029	31,810,000	1,748,790	33,558,790
TOTAL	$ 162,703,158	$ 38,539,917	$ 201,243,075

Long-term debt activity for the Primary Health System for the years ended June 30, 2014 and 2013 consisted of the following:

	Balance at June 30, 2012	*Additions/ Amortizations*	*Reductions/ Accretions*	*Balance at June 30, 2013*	*Additions/ Amortizations*	*Reductions/ Accretions*	*Balance at June 30, 2014*
Bonds Payable							
Series 2004	$ 76,754,321	$ 152,197	$ 4,950,828	$ 71,955,690	$ 89,594	$ 5,185,827	$ 66,859,457
Series 2000	36,404,215	-	1,822,960	34,581,255	-	2,022,959	32,558,296
Series 1998A	18,859,616	14,769	545,000	18,329,385	14,769	185,000	18,159,154
Series 1997A	41,000,000	-	-	41,000,000	-	-	41,000,000
Total bonds payable	173,018,152	166,966	7,318,788	165,866,330	104,363	7,393,786	158,576,907
Term Loan	6,282,894	-	652,379	5,630,515	-	652,357	4,978,158
Capital leases	6,834,667	-	93,463	6,741,204	-	165,914	6,575,290
Total long-term debt	$ 186,135,713	$ 166,966	$ 8,064,630	$ 178,238,049	$ 104,363	$ 8,212,057	$ 170,130,355

NOTE H--PENSION PLAN

The Primary Health System sponsors a single-employer, non-contributory defined benefit pension plan covering substantially all employees meeting certain age and service requirements. In addition to normal retirement benefits, the plan also provides for early retirement, delayed retirement, disability and death benefits. The Primary Health System funds the plan as contributions are approved by the Board of Trustees. The Primary Health System has the right to amend, in whole or in part, any or all of the provisions of the plan. Effective July 1, 2009, the plan was amended to be closed to new employees or rehires, and to further clarify the maximum years of service to be 30. During June 2014, the plan was amended to freeze the accrual of additional benefits going forward. The actuarial computations below do not include the impact of this amendment.

The plan issues a publicly available financial report that includes a financial statement and required supplementary information for the plan. That report may be obtained by writing to

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Erlanger Health System, Attention: Human Resources Department, 975 East Third Street, Chattanooga, Tennessee 37403 or by calling 423-778-7000.

The annual pension cost and net pension obligation for the years ended June 30, 2014 and 2013 are as follows:

	Primary Health System	
	2014	*2013*
Annual required contribution	$ 12,832,292	$ 11,165,100
Interest on net pension obligation	782,963	791,073
Adjustment to annual required contribution	(1,024,034)	(899,189)
Annual pension cost	12,591,221	11,056,984
Contributions made	-	(11,165,100)
Change in net pension obligation	12,591,221	(108,116)
Net pension obligation at beginning of year	10,439,507	10,547,623
Net pension obligation at end of year	$ 23,030,728	$ 10,439,507

The annual expected contribution for the years ended June 30, 2014 and 2013, was determined as part of the January 1, 2014 and 2013 actuarial valuations, respectively, using the projected unit credit cost method. The following actuarial assumptions were utilized:

	2014	*2013*
Investment rate of return	7.5%	7.5%
Projected salary increases	4.0%	4.0%
Inflation	2.5%	2.5%
Increase in Social Security taxable wage base	3.5%	3.5%

Annual pension costs, contribution information and the net pension obligation for the last three fiscal years follows:

	Three-Year Trend Information		
Fiscal Year Ending	*Annual Pension Cost (APC)*	*Percentage of APC Contributed*	*Net Pension Obligation*
June 30, 2012	$ 10,264,968	101%	$ 10,547,623
June 30, 2013	11,056,984	101%	10,439,507
June 30, 2014	12,591,221	0%	23,030,728

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The schedule of funding progress shown below presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The actuarial asset values are determined using prior year valuations with the addition of current year contributions and expected investment return on market value of assets based on an assumed rate of 7.5%, and deducting benefit payments and administrative expenses for the year. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments using an average of cost and market value. The plan will reset the amortization base each year equal to the unfunded actuarial accrued liability to be amortized over a closed 20 year period and using a level dollar amount as the amortization factor.

Schedule of Funding Progress

Actuarial Valuation Date	*Actuarial Value of Assets*	*Actuarial Accrued Liability (AAL)*	*Total Unfunded AAL (UAAL)*	*Funded Ratio %*	*Annual Covered Payroll*	*UAAL as a Percentage of Covered Payroll*
1/1/11	$125,335,932	$ 150,926,741	$25,590,809	83.0%	$ 147,947,134	17.3%
1/1/12	124,520,999	160,704,688	36,183,689	77.5%	138,807,819	26.1%
1/1/13	121,700,323	170,980,311	49,279,988	71.2%	121,093,695	40.7%

NOTE I--OTHER RETIREMENT PLANS

The Primary Health System maintains defined contribution plans under Section 403(b) and 401(a) of the IRC which provides for voluntary contributions by employees. The Plans are for the benefit of all employees 25 years of age or older with at least 12 months of employment.

The Primary Health System matches 50% of each participant's contribution up to 2% of the participant's earnings. Additionally, for eligible employees hired on after July 1, 2009 the Primary Health System will make profit sharing contributions equal to 3% of their earnings, regardless if the employee is making contributions. Employer contributions to the plan were approximately $1,770,000 and $1,830,000 for the years ended June 30, 2014 and 2013, respectively.

NOTE J--POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Primary Health System sponsors three post-employment benefit plans other than pensions (OPEB) for full-time employees who have reached retirement age, as defined. The respective plans provide medical, dental, prescription drug and life insurance benefits, along with a limited lump-sum cash payment for a percent of the hours in the participant's short-term disability at retirement. The postretirement health, dental and prescription drug plan is contributory and

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contains other cost-sharing features, such as deductibles and coinsurance. The life insurance plan and the short-term disability are noncontributory.

During 2014, the postretirement health, dental and prescription drug plan was amended to increase the amount of required participant contributions. Additionally, eligibility for the short-term disability was limited to employees that had attained age 55 and completed 10 years of service as of January 1, 2014 or attained age 65 with at least 5 years of service as of this date. The lump-sum payout for the short-term disability was also reduced from 50% to 20% of the amount accumulated.

Beginning in 2018, under the Patient Protection and Affordable Care Act (the Act), a 40% excise tax will be imposed on the excess benefit provided to an employee or retiree in any month under any employer-sponsored health plan. In the case of a self-insured plan, the plan administrator must pay the tax. Because of the significant uncertainties regarding the excise tax on high cost plans, management of the Primary Health System is evaluating the impact of this Act but does not anticipate a material impact on the accrued liability at this time; however, actual results could differ from these estimates.

The following table shows the plans, funded status as of June 30:

	2014	*2013*
Actuarial accrued liability	$ 16,773,895	$ 30,500,450
Market value of assets	-	-
Unfunded actuarial accrued liability	$ 16,773,895	$ 30,500,450

The following is a summary of the components of the annual OPEB cost recognized by the Primary Health System for the years ended June 30:

	2014	*2013*
Annual required contribution	$ 2,032,983	$ 2,945,355
Interest on the net obligation	153,565	228,288
Adjustment for plan amendment	(3,127,421)	-
Amortization of net obligation	(152,570)	(226,809)
OPEB cost (benefit) recognized	$ (1,093,443)	$ 2,946,834

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A reconciliation of the net OPEB obligation for the fiscal years ended June 30 is as follows:

	2014	*2013*
Net OPEB obligation beginning of the year	$ 6,966,545	$ 5,707,193
OPEB cost (benefit) recognized	(1,093,443)	2,946,834
Actual contributions	(2,223,494)	(1,687,482)
Net OPEB obligation end of the year	$ 3,649,608	$ 6,966,545

Trend Information

Fiscal Year Ending	*Annual OPEB Cost (Benefit)*	*Percentage of Annual OPEB Cost Contributed*	*Net OPEB Obligation at the End of Year*
July 1, 2012	$ 2,666,393	39.6%	$ 5,707,193
July 1, 2013	2,946,834	57.3%	6,966,545
July 1, 2014	(1,093,443)	N/A	3,649,608

Schedule of Funding Progress

Actuarial Valuation Date	*Actuarial Value of Assets*	*Actuarial Accrued Liability*	*Unfunded Actuarial Accrued Liability*	*Annual Covered Payroll*	*Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll*	*Funded Ratio*
July 1, 2012	$ -	$ 28,788,147	$ 28,788,147	$138,807,819	20.7%	0%
July 1, 2013	-	30,500,450	30,500,450	155,727,806	19.6%	0%
July 1, 2014	-	16,773,895	16,773,895	167,104,474	10.0%	0%

The actuarial calculations reflect a long-term perspective. Accordingly, the actuarial valuation involves estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability. The calculations are based on the benefits currently provided under the terms of the plan as of the date of each valuation and on the sharing of cost between employer and plan members at that point.

The actuarial cost method utilized is the unit credit actuarial cost method. The 2014 and 2013 postretirement benefit cost assumed an average weighted annual rate increase in per capita cost of covered health benefits of 7.4%, decreasing gradually to an ultimate rate of 4.8%.

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The amortization method used is the level percent of payroll method over a thirty-year amortization. Other assumptions include a 4% discount rate and assumed salary increases of 4.0% annually until age 65.

The Primary Health System also has a job injury program to provide benefits to workers injured in employment-related accidents. This program provides medical and indemnity benefits to employees injured in the course of employment for a period up to 24 months from the date of injury. The Primary Health System has recorded a projected liability that is included in other long-term liabilities in the combined statements of net position. The projected liability was discounted using a 4% rate of return at June 30, 2014 and 2013.

NOTE K--MEDICAL MALPRACTICE AND GENERAL LIABILITY CLAIMS

As of January 1, 1976, the Primary Health 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 Primary Health System's Self-Insurance Trust Agreement (the 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 Primary Health System. The Primary Health System is funding actuarial estimated liabilities through a revocable trust fund with a bank. The trust assets are included as a part of assets limited as to use in the accompanying combined statements of net position. Such amounts in the trust can be withdrawn by the Primary Health System only to the extent there is an actuarially determined excess. 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 actuary. Losses against the Primary Health 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 occurrence or $700,000 in the aggregate. However, claims against healthcare practitioners are not subject to the foregoing limits applicable to the Primary Health System. Any such individuals employed by the Primary Health System, excluding employed physicians for which the Primary Health System has purchased insurance coverage, are covered by the Trust to the limits set forth therein.

In the opinion of management, the revocable trust fund assets are adequate at June 30, 2014, to cover potential liability and malpractice claims and expenses that may have been incurred to that date.

The Primary Health 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 reserve for estimated losses and loss adjustment expense (LAE) at June 30, 2014 is adequate to cover potential liability and

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malpractice claims which may have been incurred but not reported (IBNR) to the Primary Health System. Such reserve for IBNR claims reflects a discount rate of 5.5% based on the Primary Health System's expected investment return during the payout period.

NOTE L--COMMITMENTS AND CONTINGENCIES

Litigation: The Primary Health System is subject to claims and suits which arise in the ordinary course of business. In the opinion of management, the ultimate resolution of such pending legal proceedings has been adequately provided for in its combined financial statements, and will not have a material effect on the Primary Health System's results of operations or financial position.

The prior Chief Executive Officer (CEO) resigned from Erlanger on December 31, 2011, after an interim CEO (the Executive Vice President) was established December 1, 2011. The interim CEO was replaced by the current CEO, hired on April 1, 2013. The Executive Vice President's employment at Erlanger ended when her leave expired in June, 2013. She has filed a wrongful termination lawsuit against Erlanger for $25 million, which Erlanger, in conjunction with its Directors and Officers insurance carrier, is currently defending. The ultimate outcome of this lawsuit is uncertain.

Regulatory Compliance: The healthcare industry is subject to numerous law and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare fraud and abuse, and most recently under the Provision of Health Insurance Portability and Accountability Act of 1996, matters related to patient records, privacy and security. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers, such as the Medicare Recovery Audit Contractor Program. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or un-asserted at this time.

In the normal course of business, the Primary Health System continuously monitors and investigates potential issues through its compliance program. Currently several investigations related to potential non-compliance are underway and the Primary Health System recognizes a liability when it is determined to exist and the amount can be reasonably estimated. Management currently believes that the Primary Health System is in compliance with applicable laws and regulations or has reported any amounts payable related known violations, including amounts identified through the Medicare Recovery Audit Contractor program, or similar initiatives, and any settlements will not have a significant impact on the combined financial

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statements. However, due to the uncertainties involved and the status of ongoing investigations, management's estimate could change in the near future and the amount of the change could be significant.

Health Care Reform: In March 2010, Congress adopted comprehensive healthcare insurance legislation, Patient Care Protection and Affordable Care Act and Health Care and Education Reconciliation Act. The legislation, among other matters, is designated to expand access to coverage to substantively all citizens by 2019 through a combination of public program expansion and private industry health insurance. Changes to existing TennCare and Medicaid coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required for these legislative acts, which are to be adopted over a period of years and, accordingly, the specific impact of any future regulations is not determinable.

NOTE M–LEASES

Capital: As discussed in Note E, during 2012, the Primary Health System entered into a sale/leaseback arrangement, under which certain leases of office space meet the criteria as capital leases. Interest on these leases has been estimated at 7% per annum.

During 2011, the Primary Health System acquired a parcel of land from the Industrial Development Board of the City of Chattanooga, Tennessee for a nominal amount. The Primary Health System also entered into a project development agreement with a developer to facilitate final design, financing and construction of a medical office building for the benefit of Volkswagen Group of America Chattanooga Operations, LLC (Volkswagen) on this land. The Primary Health System has entered into a forty-year ground lease, with the option of two ten-year renewal terms, of the parcel to the developer. Additionally, in 2012, the Primary Health System has entered into a twenty year lease with the developer for certain space in the medical office building for a wellness center and other operations under a capital lease agreement.

The following is an analysis of the property under capital leases by major classes at June 30:

	Primary Health System	
	2014	*2013*
Buildings	$ 6,601,812	$ 6,601,812
Equipment	494,905	494,905
	7,096,717	7,096,717
Less: accumulated amortization	(1,177,444)	(593,019)
	$ 5,919,273	$ 6,503,698

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The following is a schedule of future minimum lease payments under capital leases:

Year Ending June 30,	
2015	$ 773,890
2016	739,815
2017	729,999
2018	744,453
2019	759,311
2020-2024	3,779,120
2025-2029	4,055,430
2030-2034	1,848,126
Total minimum lease payments	13,430,144
Less: amount representing interest	(6,854,854)
Present value of minimum lease payments (including current portion of $196,283)	$ 6,575,290

Operating: The Primary Health System rents office space and office equipment under non-cancelable operating leases through 2033, containing various lease terms. The leases have other various provisions, including sharing of certain executory costs. Rent expense under operating leases was approximately $7,840,000 and $7,450,000 in 2014 and 2013, respectively. Future minimum lease commitments at June 30, 2014 for all non-cancelable leases with terms in excess of one year are as follows:

Year Ending June 30,	
2015	$ 6,200,885
2016	3,539,847
2017	3,434,456
2018	2,666,047
2019	2,436,867
Thereafter	19,823,183
	$ 38,101,285

Rental Revenues: The Primary Health System leases office space to physicians and others under various lease agreements with terms in excess of one year. Rental revenue recognized for the years ended June 30, 2014 and 2013 totaled approximately $3,688,000 and $4,261,000, respectively. The following is a schedule of future minimum lease payments to be received for the years ending June 30:

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Year Ending June 30,	
2015	$ 1,915,427
2016	1,140,038
2017	748,170
2018	533,963
2019	413,203
Thereafter	1,302,421
	$ 6,053,222

NOTE N--DERIVATIVE FINANCIAL INSTRUMENTS

Simultaneous with the issuance of the $85,000,000 Series 2004 bonds discussed in Note G, the Primary Health System entered into interest rate swap agreements. In an effort to take advantage of the differences between taxable and tax-exempt debt, and manage exposure to interest rate risks associated with various debt instruments, the Primary Health System is currently a party to two distinct interest rate swap agreements with a third party.

With respect to the 1997A Series bonds, the Primary Health System executed a swap agreement whereby the Primary Health System receives a variable rate equal to the one-month LIBOR-BBA rate and pays a fixed rate equal to 5.087% on a notional amount of $41,000,000. Unless terminated at an earlier date (at the Primary Health System's option), this agreement terminates on October 1, 2027.

With respect to the 1998A Series bonds, the Primary Health System executed a swap agreement whereby the Primary Health System receives a fixed rate of 3.932% and pays a variable rate equal to the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index on a notional amount of $16,305,000. Unless terminated at an earlier date (at the Primary Health System's option), this agreement terminates on October 1, 2027.

Although these swap instruments are intended to manage exposure to interest rate risks associated with the various debt instruments referred to above, none of these swap agreements have been determined to be effective hedges. Accordingly, the interest rate swaps are reflected in the accompanying combined statements of net position at their aggregate fair value (a net liability of $3,982,646 and $4,856,429 at June 30, 2014 and 2013, respectively) and the changes in the value of the swaps are reflected as a component of non-operating revenues in the combined statements of revenue, expenses and changes in net position.

Management has considered the effects of any credit value adjustment and while management believes the estimated fair value of the interest rate swap agreements is reasonable, the estimate is subject to change in the near term.

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

NOTE O--MANAGEMENT AGREEMENT

On April 13, 2011, the Primary Health System's Board of Trustees approved a resolution authorizing a management agreement (the Agreement) between the Primary Health System, Hutcheson Medical Center, Inc. and affiliates (collectively, Hutcheson) and the Hospital Authority of Walker, Dade and Catoosa Counties in Georgia (the Hospital Authority).

Under the terms of the Agreement, the Primary Health System proposed general operating policies and directives for Hutcheson; was responsible for the day-to-day management of Hutcheson and provided oversight of ancillary aspects of Hutcheson, such as physician practices, education, research, and clinical services. The Agreement's initial term was to be through March 31, 2021 with the Primary Health System to have the option to extend the agreement for two additional five year terms. The Primary Health System was authorized to terminate the Agreement, without cause, upon written notice at any point subsequent to May 25, 2013. Upon such termination, Hutcheson was to be obligated to make a Termination Payment to the Primary Health System consisting of all expenses then owed by Hutcheson and any outstanding advances under a Line of Credit Agreement, discussed below. Hutcheson could also terminate the agreement without cause at any point subsequent to May 25, 2013 by paying the Termination Payment, as well as the lesser of a) $1,000,000 per year for each year the Agreement has been in place, or b) $1,000,000 less any management fees paid in each Agreement year.

In addition to the Agreement, the Primary Health System agreed to extend a Line of Credit (the Line) to the Hospital Authority. The maximum amount available under the initial Line was $20,000,000. During the year ending June 30, 2013, the Agreement was amended to increase the maximum amount to $20,550,000. At June 30, 2014, the draws on the Line totaled $20,550,000.

The Line called for interest only payments each month on the outstanding balance, based on the London InterBank Offered Rate plus 4% or a rate of 5%, whichever is greater. However, any unpaid interest through March 31, 2013 was deferred and to be paid over a twelve-month period commencing on that date. All outstanding draws were due at the maturity date, which is consistent with the Agreement termination dates, discussed above.

The Line is secured by a Security Agreement on the primary Hutcheson medical campus. Further, the Counties of Walker and Catoosa, Georgia (collectively, the Counties) have provided additional security in the form of guarantees under an Intergovernmental Agreement. Under the Intergovernmental Agreement, the Counties have each agreed to a maximum liability of $10,000,000 to secure the line. The form of such guarantee was to be at the option of the Counties and were to become enforceable upon a notice of default delivered by the Primary Health System. The form of the guarantee selected by the Counties can include a) a payment of 50% by each County of the amounts owing under the Line, b) payments as they become due up to the respective $10,000,000 limits or c) after non-Judicial foreclosure under the Security

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

Agreement, each County could elect to pay 50% of any deficiency between the amount outstanding under the Line and the then fair market value. Both Counties previously agreed to levy annual property taxes, if needed to honor these guarantees.

In June 2013, the Agreement was modified to allow Hutcheson to issue requests for proposals for the lease or sale of Hutcheson properties without creating a breach of the Agreement. As part of the Agreement, Hutcheson committed to obtain alternative financing and repay the line of credit upon the earlier of the replacement financing being obtained by Hutcheson, or June 1, 2014.

In August of 2013, however, Hutcheson terminated the Agreement. In response thereto, the Primary Health System declared Hutcheson to be in default under the Agreement and made formal demand of Hutcheson as to all amounts then due and payable. In February 2014, the Primary Health System filed suit against Hutcheson in order to collect the moneys, including principal, interest and penalties, then due. In response to such filing, Hutcheson has asserted multiple counter claims against the Primary Health System alleging mismanagement and other failures under the Agreement. Additionally, another senior creditor has filed a separate lawsuit against the Primary Health System alleging priority over the Primary Health System's security interest and, presumably, the County guarantees relating to Hutcheson. The litigation is currently pending in the United States District Court in the Northern District of Georgia, Rome Division

NOTE P--OTHER REVENUE

The American Recovery and Reinvestment Act of 2009 and the Health Information Technology for Economic and Clinical Health (HITECH) Act established incentive payments under the Medicare and Medicaid programs for certain healthcare providers that use certified Electronic Health Record (EHR) technology. To qualify for incentive payments, healthcare providers must meet designated EHR meaningful use criteria as defined by the Centers for Medicare & Medicaid Services (CMS). Incentive payments are awarded to healthcare providers who have attested to CMS that applicable meaningful use criteria have been met. Compliance with meaningful use criteria is subject to audit by the federal government or its designee and incentive payments are subject to adjustment in a future period.

The Primary Health System recognizes revenue for EHR incentive payments when substantially all contingencies have been met. During 2014 and 2013, the Primary Health System recognized approximately $4,220,000 and $2,670,000, respectively, of other revenue related to EHR incentive payments.

SUPPLEMENTAL- 1

September 26, 2014
11:40am

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

NOTE Q--CONDENSED FINANCIAL INFORMATION

The following is condensed, financial information related to the discretely presented component units as of and for the years ended June 30, 2014 and 2013:

	ContinuCare	*Cyberknife*
As of June 30, 2014		
Due from other governments	$ 192,950	$ 176,300
Other current assets	10,345,848	460,017
Total Current Assets	10,538,798	636,317
Net property, plant and equipment	4,885,489	4,120,144
Other assets	882,663	64,013
Total Assets	$ 16,306,950	$ 4,820,474
Due to other governments	$ 126,882	$ -
Other current liabilities	2,564,259	655,526
Total Current Liabilities	2,691,141	655,526
Long-term debt and capital lease obligations	51,653	3,092,057
Total Liabilities	2,742,794	3,747,583
Net position		
Unrestricted	8,759,244	556,940
Net investment in capital assets	4,804,912	515,951
Total Net Position	13,564,156	1,072,891
Total Liabilities and Net Position	$ 16,306,950	$ 4,820,474
Year Ended June 30, 2014		
Net patient and operating revenue	$ 26,429,529	$ 1,900,600
Operating expenses:		
Salaries, wages and benefits	13,407,246	231,342
Supplies and other expenses	12,497,767	702,098
Depreciation	549,539	560,208
Total Operating Expenses	26,454,552	1,493,648
Operating Income (Loss)	(25,023)	406,952
Nonoperating revenue (expenses)	389,611	(172,007)
Change in Net Position	364,588	234,945
Net Position at Beginning of Period	13,199,568	837,946
Net Position at End of Period	$ 13,564,156	$ 1,072,891

SUPPLEMENTAL- 1
A – 73
September 26, 2014
11:40am
SEP 26 '14 AM 11:35

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

	ContinuCare	*Cyberknife*
As of June 30, 2013		
Due from other governments	$ 248,239	$ 129,000
Other current assets	8,865,703	490,008
Total Current Assets	9,113,942	619,008
Net property, plant and equipment	5,174,936	4,468,880
Other assets	2,383,609	75,309
Total Assets	$ 16,672,487	$ 5,163,197
Due to other governments	$ 408,032	$ 120,000
Other current liabilities	3,035,595	788,584
Total Current Liabilities	3,443,627	908,584
Long-term debt and capital lease obligations	29,292	3,416,667
Total Liabilities	3,472,919	4,325,251
Net position		
Unrestricted	8,110,622	210,424
Net investment in capital assets	5,088,946	627,522
Total Net Position	13,199,568	837,946
Total Liabilities and Net Position	$ 16,672,487	$ 5,163,197
Year Ended June 30, 2013		
Net patient and operating revenue	$ 26,026,863	$ 1,560,900
Operating expenses:		
Salaries, wages and benefits	13,395,486	211,954
Supplies and other expenses	12,897,677	578,266
Depreciation	517,483	527,752
Total Operating Expenses	26,810,646	1,317,972
Operating Income (Loss)	(783,783)	242,928
Nonoperating revenue (expenses)	497,259	(194,623)
Change in Net Position	(286,524)	48,305
Net Position at Beginning of Period	13,486,092	789,641
Net Position at End of Period	$ 13,199,568	$ 837,946

CHATTANOOGA-HAMILTON COUNTY HOSPITAL AUTHORITY
(d/b/a Erlanger Health System)

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2014 and 2013

ContinuCare owes the Primary Health System for various services, supplies, and rents provided, or expenses paid on its behalf. Actual expenses incurred related to these services were $1,925,245 and $2,119,466 in 2014 and 2013, respectively. In addition, ContinuCare provides staffing, contract nurse visits, and administrative services to the Primary Health System. Revenues from such services were $372,554 and $617,427 for the years ended 2014 and 2013, respectively. Amounts due at June 30, 2014 and 2013 are included in amounts due to/from other governments in the accompanying combined financial statements.

As of June 30, 2014 and 2013, Cyberknife owes the Primary Health System for various services, supplies and rents provided, or expenses paid on its behalf. The Primary Health System owes Cyberknife for radiation services provided by Cyberknife to the Primary Health System's patients. Revenues related to those services provided to the Primary Health System were $1,900,600 and $1,560,900 in 2014 and 2013, respectively. Amounts due at June 30, 2014 and 2013 are included in amounts due to/from other governments in the accompanying combined statements of net position.

COPY-
SUPPLEMENTAL-2

Erlanger Health System
CN1409-038

SUPPLEMENTAL #2
September 30, 2014
4:05 pm

September 29, 2014

Mr. Phillip M. Earhart
HSD Examiner
State of Tennessee
Health Services & Development Agency
Andrew Jackson Building, Ninth Floor
502 Deaderick Street
Nashville, TN 37243

RE: 3T MRI CON Application
Chattanooga- Hamilton County Hospital Authority d//b/a Erlanger Medical Center
Response to Request for Supplemental Information

Dear Mr. Earhart;

Enclosed is the information you requested in your letter of September 29, 2014. We hope that you find the information satisfactory such that are application can be deemed complete. However, should you have additional questions or need further clarification of the information provided we will be please to provide this information.

We look forward to working with you and the HSDA in the review of our application.

Sincerely,

Joseph M. Winick, FACHE

Senior Vice President

Planning & Business Development

SUPPLEMENTAL #2
September 30, 2014
4:05 pm

SUPPLEMENTAL INFORMATION (No. 2)

Chattanooga-Hamilton County Hospital Authority

D / B / A

Erlanger Medical Center

Application For

Magnetic Resonance Imaging (Tesla 3.0)

On The Main Campus Of
Erlanger Health System

Application Number CN1409-038

September 29, 2014

ERLANGER HEALTH SYSTEM
Chattanooga, Tennessee

SUPPLEMENTAL #2
September 30, 2014
4:05 pm

Supplemental Responses To Questions Of The Tennessee Health Services & Development Agency

1.) **Section B, Project Description, Item II.E 1.b & 1.3.**

It is noted the applicant will purchase the 3T MRI. However, please itemize the $3,013,702 cost for fixed equipment in the Project Costs Chart. This amount is not found in the Equipment Quote found in Attachment A-59.

Response

The detail is below.

MRI Unit - 3.0 Tesla	$ 2,289,114
Service Agreement (Years 1-5)	724,588
Total	$ 3,013,702

2.) **Section C, Economic Feasibility, Item 1 (Historical & Projected Data Charts).**

The historical chart indicates the applicant has operated at a loss of approximately $12 million in 2011, $26 million in 2012, and $24 million in 2013. A Projected Data Chart for Erlanger Medical Center for Year One and Year Two of the proposed project was requested in Supplemental One, but not provided. The applicant did provide a copy of the FY2014 audit report which shows positive income from operations of $17,917,993. Please clarify if the applicant intended to submit the audit in lieu of the request for a Projected Data Chart for Erlanger Medical Center. If so, please provide an estimate of the financial performance for Erlanger Medical Center in Year Two (2015) of the proposed project.

Response

Our apology, we intended to provide the requested *Projected Data Chart*, as requested. The *Projected Data Chart* is attached to this supplemental information.

Further, We understood that you were looking for information to demonstrate economic feasibility as you

SUPPLEMENTAL #2
September 30, 2014
4:05 pm

referenced prior year shortfalls in your question. For this reason, we provided audited financial statements to demonstrate that *Erlanger Medical Center* has the resources to fund and operate the proposed project. For FY 15, we are projecting positive income from operations of $18.4 million.

3.) Section C, Economic Feasibility, Question 5.

The average gross charge, average deduction and average net charge are noted. However, please identify the project's average gross charge, average deduction from operating revenue, and average net charge using information from the Projected Data Chart for Year 1 and Year 2 of the proposed project. Please verify the following:

Year One
Year One Gross Charge: $3,614.00
Year One Deduction from Revenue: $2,952.00
Average Net Charge: $662.00

Year Two
Year Two Gross Charge: $3,774.00
Year Two Deduction from Revenue: $3,107.00
Average Net Charge: $667.00.

Response

The amounts shown above for average gross charge, average deduction from revenue and average net revenue are correct based upon the *Projected Data Chart*. Some of our calculations in the first supplement were in error.

4.) Section C, Economic Feasibility, Question 6.B.

The comparison of the proposed MRI Gross Charges per Procedure/Treatment by quartiles using the following table is noted. However, please compare the average gross charge of $3,614.00 in Year One to the charges below.

Gross Charges per Procedure/Treatment
By Quartiles
YEAR = 2013

Equipment Type	1st Quartile	Median	3rd Quartile
MRI	$1,570.39	$2,175.15	$3,498.94
Source: Medical Equipment Registry – 8/11/2014			

Response

The average gross charge of $ 3,614.00 for this project would be in the 3rd quartile in comparison to the table in the provided.

5.) Section C, Economic Feasibility, Item 9.

As requested in Supplemental One, please indicate how medically indigent patients will be served by the project.

Response

As a safety net provider, *Erlanger Medical Center* serves all patients regardless of their ability to pay. Medically indigent patients have access to all services provided by *Erlanger*. If a medically indigent patient is referred for services, our financial counselors will meet with the patient the assess ability to pay. *Erlanger* will also make a determination as to whether or not the individual would qualify for reimbursement under the *Affordable Care Act*. In the event a determination is made that the patient is medically indigent, the patient will be scheduled on a routine basis to receive the service for which a physician's order has been received. No patient is denied service based on their inability to pay.

6.) Section C, Contribution To Orderly Development, Item 3 (Staffing).

The table of the current and proposed staffing patterns in the proposed service area is noted. However, please provide the reference for the area wide wages, i.e.-Tennessee Department of Labor and Workforce Development and/or other documented sources.

Response

The area wide wage comparisons were obtained from *Towers Watson,* a human resources consultancy firm.

SUPPLEMENTAL #2
September 30, 2014
4:05 pm

SEP 30 2014

A F F I D A V I T

STATE OF TENNESSEE |
COUNTY OF HAMILTON |

NAME OF FACILITY Erlanger Medical Center

I, Joseph M. Winick, after first being duly sworn, State under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

SIGNATURE

SWORN to and subscribed before me this 29 of September (Month), 2014 (Year), a Notary Public in and for the State of Tennessee, County of Hamilton.

SHELIA HALL
STATE OF TENNESSEE NOTARY PUBLIC
HAMILTON COUNTY

Shelia Hall
NOTARY PUBLIC

My commission expires June 9 (Month / Day), 2018.

CERTIFICATE OF NEED
REVIEWED BY THE DEPARTMENT OF HEALTH
DIVISION OF POLICY, PLANNING AND ASSESSMENT
615-741-1954

DATE: November 28, 2014

APPLICANT: Chattanooga-Hamilton County Hospital Authority
d/b/a Erlanger Health System
975 Eat 3rd Street
Chattanooga, Tennessee 37403

CON #: CN1409-038

CONTACT PERSON: Joseph M. Winick, Senior Vice President
975 3rd Street
Chattanooga, Tennessee 37403

COST: $4,597,711

In accordance with Section 68-11-1608(a) of the Tennessee Health Services and Planning Act of 2002, the Tennessee Department of Health, Division of Policy, Planning, and Assessment, reviewed this certificate of need application for financial impact, TennCare participation, compliance with *Tennessee's State Health Plan*, and verified certain data. Additional clarification or comment relative to the application is provided, as applicable, under the heading "Note to Agency Members."

SUMMARY:
The applicant, Erlanger Medical Center is solely owned by Chattanooga-Hamilton County Hospital Authority, a governmental hospital authority, d/b/a Erlanger Medical Center, is seeking Certificate of Need approval for the purchase of a 3.0 tesla MRI unit to be located on the Erlanger Medical Center main campus at 975 East 3rd Street, Chattanooga, Hamilton County, Tennessee 37403. Erlanger Medical Center (EMC) is a 688 bed general medical/surgical hospital and is the regional safety net provider.

The MRI unit to be acquired is a Siemens Magnetom 3.0 Tesla with a total project cost of $4,597,711, including construction costs of $1,030,203, and cost per square foot of $358.33, and will be located on the first floor of Erlanger's Outpatient Services area, in a space currently occupied by Bone Density and Ultrasound services. Those services will be relocated and approximately 2,875 square feet of space will be renovated for the MRI unit. No other areas will be affected by the project.

GENERAL CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all of the general criteria for Certificate of Need as set forth in the document *Tennessee's State Health Plan.*

NEED:
The applicant's service area includes Bradley, Bledsoe, Grundy, Hamilton, Marion, McMinn, Meigs, Polk, Rhea, and Sequatchie counties. Seventy five percent of the service area population resides within 40 miles of Erlanger. Several counties in north Georgia are also serviced by EMC, but those areas are not included in this application.

Primary and Secondary Service Area Population Projections for 2014 and 2018

County	2014 Population	2018 Population	% Increase/ (Decrease)
Bradley	103,308	107,481	4.0%
Bledsoe	12,641	12,599	-0.3%
Grundy	13,355	13,293	-0.5%
Hamilton	347,451	353,577	1.8%
Marion	28,556	28,992	1.5%
McMinn	53,233	54,203	1.8%
Meigs	12,205	12,643	3.6%
Polk	16,604	16,588	-0.1-%
Rhea	33,392	34,790	4.2%
Sequatchie	15,019	16,004	6.6%
Total	**635,764**	**650,150**	**2.3%**

Source: *Tennessee Population Projections 2000-2020, June 2013 Revision, Tennessee Department of Health, Division of Policy, Planning, and Assessment*

3-Tesla technology is becoming the standard of care for imaging in areas such as orthopedics, neurology and pediatrics. These specialty areas are increasingly using 3T MRI units due to the increased level of image resolution 3-Tesla imaging provides. These MRI units offer significantly higher resolution, faster acquisition times, reduced motion artifacts, and enhanced clarity of small pathology. EMC believes in order to service the area's population and the future demand for MRI services; the addition of a fourth MRI unit is needed. EMC's 2013 MRI utilization of the three current units was 11,558 procedures, with an average of 3,853 per unit. This utilization is 34% higher than the optimal capacity of 2,880 procedures per unit, and 7% higher than full capacity utilization of 3,600 procedures per unit. EMC's MRI utilization per unit is higher than any other provider in the service area. In 2013, the applicant states that 759 patients were referred outside of the Erlanger system, (to Chattanooga Outpatient Center and Memorial Hospital), in order to obtain scans using the advanced technology of 3T imaging.

In July 2014, EMC implemented a 3rd (night) shift in the MRI department to keep up with volumes. This 3rd shift is primarily utilized for inpatients. This could increase the length of stay and cost of care, as well as disrupting the night time rest of inpatients. Adding a fourth unit would decrease cost and length of stay for its patients. Erlanger has also extended hours and shifts to include Saturdays and Sundays, and is still unable to meet demand. The proposed schedule of operation for the new 3.0T unit will be 8:00am to 8:00pm Monday thru Saturday to promote access to the service. The applicant states the average patient wait time for MRI services is about two weeks. MRI volumes at Erlanger medical Center have increased about 10% from 2011 to 2014.

As a designated Safety Net and Children's Hospital, the inability of Erlanger to perform this type of imaging could negatively impact the care of patients that would otherwise be unable to receive it. In addition, portions of all the service area counties are considered medically underserved by the U.S. Health Resources and Services Administration. Providers serving these areas may be given special consideration under item #9 of the Certificate of Need Standards and Criteria for MRI Services.

HSDA Service Area 2013 MRI Equipment Utilization

Facility	County	Fixed	Procedures	Mobile	Procedures
Cleveland Imaging	Bradley	1	3509	0	0
Skyridge Medical Center	Bradley	1	2302	0	0
Skyridge Medical Center West	Bradley	2	1818	0	0
Chattanooga Bone & Joint Surgeons, PC	Hamilton	1	841	0	0
Chattanooga Imaging Downtown	Hamilton	2	1540	0	0
Chattanooga Imaging East	Hamilton	1	2822	0	0
Chattanooga Imaging Hixson	Hamilton	1	2386	0	0

Chattanooga Orthopedic Group PC	Hamilton	1	5340	0	0
Chattanooga Outpatient Center (Digital Imaging of North Georgia)	Hamilton	2	7292	0	0
Erlanger East Campus	Hamilton	1	568	0	0
Erlanger Medical Center	Hamilton	3	11558	0	0
Memorial Hixson Hospital	Hamilton	2	2488	0	0
Memorial Hospital	Hamilton	3	4356	0	0
Memorial Ooltewah Imaging Center	Hamilton	1	1049	0	0
Neurosurgical Group of Chattanooga, P.C.	Hamilton	1	1198	0	0
Parkridge East Hospital	Hamilton	1	1024	0	0
Parkridge Medical Center	Hamilton	1	2054	0	0
Tennessee Imaging and Vein Center	Hamilton	1	3165	0	0
Parkridge West	Marion	1	884	0	0
Starr Regional Medical Center	McMinn	1	2437	0	0
Starr Regional Medical Ctr. Etowah	McMinn	1	479	0	0
Copper Basin Medical Center	Polk	0	0	1day/week	250
Rhea Medical Center	Rhea	1	1481	0	0
Total		30.2	60591	1	250

Source: HSDA 2013 Equipment Utilization

The average MRI utilization for the service area is 2015 procedures per unit:
(60,591 fixed scans + 250 mobile scans = 60,841 total scans) / 30.2 units

There are currently three other 3.0Tesla MRI units in the service area, Memorial Hospital, Memorial Ooltewah Imaging Center, and Chattanooga Outpatient Center. Also, Parkridge Medical Center has a pending Certificate of Need application, CN1408-035, pending for a 3.0 Tesla MRI unit.

TENNCARE/MEDICARE ACCESS:
Erlanger Medical Center is a Medicare and a Medicaid/TennCare provider. According to the applicant, based on inpatient gross charges, EMC's TennCare/Medicaid utilization percentages were 25.9%, 24.7%, and 24.1% for years 2011, 2012, and 2013 respectively.

Anticipated gross revenues from Medicare in year one of the project are $2,640,828 and 31.1% of total revenue. Anticipated gross revenues from TennCare in year one of the project are $413,165 and 4.9% of total revenue.

A complete listing of managed care organizations that Erlanger has contracts with is located on page 8 of the application.

ECONOMIC FACTORS/FINANCIAL FEASIBILITY: The Department of Health, Division of Policy, Planning, and Assessment has reviewed the Project Costs Chart, the Historical Data Chart, and the Projected Data Chart to determine if they are mathematically accurate and the projections are correct based on the applicant's anticipated level of utilization. The location of these charts may be found in the following specific locations in the Certificate of Need Application or the Supplemental material:

Projected Costs Chart: The MRI unit to be acquired is a Siemens Magnetom 3.0 Tesla with a total project cost of $4,597,711 including $2,289,114 for the MRI unit and $724,588 for a Service Agreement for years one through five.

Projected Data Chart: The Projected Data Chart can be found in Supplemental #2. The applicant projects they will perform 2,350 scans in year one and 2,975 scans in year two of the project with net operating incomes of $498,891 and $863,149 respectively. Year one Average Gross Charges are estimated at $3,614 per scan and $3,774 in year two, while year one Average Deductions per scan are $2,952, and $3,107 for year two, leaving an Average Net Charge of $662 per scan in year one and $667 per scan in year two.

Historical Data Chart: The Historical Data chart is located on page 51 of the application. According the HSDA MRI Utilization Chart, using the current three MRI units, the applicant performed 10,730, 10,915, and 11,558 MRI scans for the years 2011, 2012, and 2013 respectively. For this three year period, these volumes average 3577, 3638 and 3853 scans per MRI unit.

The project will be funded through cash from operations as outlined in a letter from the Chief Financial Officer on page A-19 of the application.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE:

As the safety net provider, Erlanger operates in a largely underserviced population that depends on EMC to provide needed services. Adding an additional MRI unit with newer technology follows the State Health Plan by providing access to this service, regardless of a patient's ability to pay. No patient is denied service based on their inability to pay.

EMC has the only level I trauma center, the only life flight helicopter service, and the only children's hospital in the region. EMC is also the only level III neonatal and perinatal provider in the service area.

The applicant is licensed by the Tennessee Department of Health, Board for Licensing Health Care Facilities (license number 0000000140) with an expiration date of June 6, 2015. No deficiencies were cited by the Tennessee Department of Health, Division of Health Licensure and Regulation-East Tennessee Regional Office during its survey conducted on August 27-29, 2013.

The applicant is accredited by the Joint Commission for the Accreditation of Healthcare Organizations according to the Tennessee Department of Health, Division of Health, Licensure and Regulation-Office of Health Care Facilities.

Staffing for the 3.0 T MRI unit will consist of 1.5 FTE radiologic technologists.

Erlanger provides clinical sites for multiple universities, and clinical and allied health training program. EMC is a non-profit, academic teaching center affiliated with the University Of Tennessee College Of Medicine and provides internships and rotation sites for nursing, radiology, pharmacy, medical imaging, physical therapy, nuclear medicine, and sonography.

SPECIFIC CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all relevant specific criteria for Certificate of Need as set forth in the document *Tennessee's State Health Plan.*

Magnetic Resonance Imaging
Standards and Criteria

1. Utilization Standards for non-Specialty MRI Units.

    a. An applicant proposing a new non-Specialty stationary MRI unit should project a minimum of at least 2160 MRI procedures in the first year of service, building to a minimum of 2520 procedures per year by the second year of service, and building to a minimum of 2800 procedures per year by the third year of service and for every year thereafter.

    The applicant projects MRI scan volumes for year one of the project at 2,350 scans, 2,975 scans in year two, and 3,150 scans in year three.

b. Providers proposing a new non-Specialty mobile MRI unit should project a minimum of at least 360 mobile MRI procedures in the first year of service per day of operation per week, building to an annual minimum of 420 procedures per day of operation per week by the second year of service, and building to a minimum of 480 procedures per day of operation per week by the third year of service and for every year thereafter.

Criteria not applicable.

c. An exception to the standard number of procedures may occur as new or improved technology and equipment or new diagnostic applications for MRI units are developed. An applicant must demonstrate that the proposed unit offers a unique and necessary technology for the provision of health care services in the Service Area.

The applicant maintains that although 3.0 Tesla technology is not necessarily new technology, it provides improved diagnostic quality and resolution and that 3.0 Tesla imaging is becoming the standard of care for orthopedic and neurologic testing.

d. Mobile MRI units shall not be subject to the need standard in paragraph 1b if fewer than 150 days of service per year are provided at a given location. However, the applicant must demonstrate that existing services in the applicant's geographical area are not adequate and/or that there are special circumstances that require these additional services.

Criteria not applicable.

2. Access to MRI Units. All applicants for any proposed new MRI Unit should document that the proposed location is accessible to approximately 75% of the service area's population. Applications that include non-Tennessee counties in their proposed service areas should provide evidence of the number of existing MRI units that service the non-Tennessee counties and the impact on MRI unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity (if that data are available).

Considering the ten county service area, 75% of the population resides within 34 miles or approximately 40 minutes of EMC. Several counties in northwest Georgia are considered part of the service area, but are not included in the application due to lack of utilization data from the Georgia Department of Health.

3. Economic Efficiencies. All applicants for any proposed new MRI Unit should document that alternate shared services and lower cost technology applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.

The applicant explored other alternatives but none were optimal in that EMC does not currently have a 3.0 Tesla MRI unit in their system. In order to provide a higher level of care, a consistent continuum of care, offering the 3.0 Tesla technology within the EMC healthcare system was the best choice. Additionally, the current three units are operating above capacity and are unable to keep up with demand for this imaging service.

4. Need Standard for non-Specialty MRI Units.

A need likely exists for one additional non-Specialty MRI unit in a Service Area when the combined average utilization of existing MRI service providers is at or above 80% of the total capacity of 3600 procedures, or 2880 procedures, during the most recent twelve-

month period reflected in the provider medical equipment report maintained by the HSDA. The total capacity per MRI unit is based upon the following formula:

Stationary MRI Units: 1.20 procedures per hour x twelve hours per day x 6 days per week x 50 weeks per year = 3,600 procedures per year

The average MRI utilization for the service area is 2015 procedures per unit: (60,591 fixed scans + 250 mobile scans = 60,841 total scans) / 30.2 units

Mobile MRI Units: Twelve (12) procedures per day x days per week in operation x 50 weeks per year. For each day of operation per week, the optimal efficiency is 480 procedures per year, or 80 percent of the total capacity of 600 procedures per year.

5. Need Standards for Specialty MRI Units.

Need Standard #5 Criteria not applicable.

a. Dedicated fixed or mobile Breast MRI Unit. An applicant proposing to acquire a dedicated fixed or mobile breast MRI unit shall demonstrate that annual utilization of the proposed MRI unit in the third year of operation is projected to be at least 1,600 MRI procedures (.80 times the total capacity of 1 procedure per hour times 40 hours per week times 50 weeks per year), and that:

1. It has an existing and ongoing working relationship with a breast-imaging radiologist or radiology proactive group that has experience interpreting breast images provided by mammography, ultrasound, and MRI unit equipment, and that is trained to interpret images produced by an MRI unit configured exclusively for mammographic studies;

2. Its existing mammography equipment, breast ultrasound equipment, and the proposed dedicated breast MRI unit is in compliance with the federal Mammography Quality Standards Act;

3. It is part of an existing healthcare system that provides comprehensive cancer care, including radiation oncology, medical oncology, surgical oncology and an established breast cancer treatment program that is based in the proposed service area.

4. It has an existing relationship with an established collaborative team for the treatment of breast cancer that includes radiologists, pathologists, radiation oncologists, hematologist/oncologists, surgeons, obstetricians/gynecologists, and primary care providers.

b. Dedicated fixed or mobile Extremity MRI Unit. An applicant proposing to institute a Dedicated fixed or mobile Extremity MRI Unit shall provide documentation of the total capacity of the proposed MRI Unit based on the number of days of operation each week, the number of days to be operated each year, the number of hours to be operated each day, and the average number of MRI procedures the unit is capable of performing each hour. The applicant shall then demonstrate that annual utilization of the proposed MRI Unit in the third year of operation is reasonably projected to be at least 80 per cent of the total capacity.

c. Dedicated fixed or mobile Multi-position MRI Unit. An applicant proposing to institute a Dedicated fixed or mobile Multi-position MRI Unit shall provide documentation of the total capacity of the proposed MRI Unit based on the number of days of operation each week, the number of days to be operated each

year, the number of hours to be operated each day, and the average number of MRI procedures the unit is capable of performing each hour. The applicant shall then demonstrate that annual utilization of the proposed MRI Unit in the third year of operation is reasonably projected to be at least 80 per cent of the total capacity.

6. Separate Inventories for Specialty MRI Units and non-Specialty MRI Units. Breast, Extremity, and Multi-position MRI Units shall not be counted in the inventory of non-Specialty fixed or mobile MRI Units, and an inventory for each category of Specialty MRI Unit shall be counted and maintained separately. None of the Specialty MRI Units may be replaced with non-Specialty MRI fixed or mobile MRI Units and a Certificate of Need granted for any of these Specialty MRI Units shall have included on its face a statement to that effect. A non-Specialty fixed or mobile MRI Unit for which a CON is granted for Specialty MRI Unit purpose use-only shall be counted in the specific Specialty MRI Unit inventory and shall also have stated on the face of its Certificate of Need that it may not be used for non-Specialty MRI purposes.

Criteria not applicable.

7. Patient Safety and Quality of Care. The applicant shall provide evidence that any proposed MRI Unit is safe and effective for its proposed use.

a. The United States Food and Drug Administration (FDA) must certify the proposed MRI Unit for clinical use.

A letter from the FDA approving the MRI unit is provided at A-33 of the application.

b. The applicant should demonstrate that the proposed MRI Procedures will be offered in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

A letter from the project architect in Supplemental 1, A-8, states that the renovation will comply with all building codes, TDOH licensing standards, and federal standards.

c. The applicant should demonstrate how emergencies within the MRI Unit facility will be managed in conformity with accepted medical practice.

A list of patient transfer agreements is provided in Supplemental # 2, A-9, 10 & 11.

d. The applicant should establish protocols that assure that all MRI Procedures performed are medically necessary and will not unnecessarily duplicate other services.

The EMC Policy on Outpatient Orders On Medical Necessity is included in Attachment A-54 of the application.

e. An applicant proposing to acquire any MRI Unit, including Dedicated Breast and Extremity MRI Units, shall demonstrate that it meets or is prepared to meet the staffing recommendations and requirements set forth by the American College of radiology, including staff education and training programs:

EMC currently operates three MRI units and meets the staffing requirements of the American College of radiology, and will incorporate the same requirements to the proposed 3.0 T unit.

f. All applicants shall commit to obtain accreditation from the Joint Commission, the American College of Radiology, or a comparable accreditation authority for MRI within two years following operation of the proposed MRI Unit.

The applicant is accredited by the Joint Commission for the Accreditation of Healthcare Organizations according to the Tennessee Department of Health, Division of Health, Licensure and Regulation-Office of Health Care Facilities.

g. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.

A list of patient transfer agreements is provided in Supplemental # 2, A-9, 10 & 11. The medical director for the proposed 3.0 T unit, Dr. Blaise Baxter M.D., is an active member of EMC's medical staff. A copy of Dr. Baxter's curriculum vitae is included in Attachment A-36.

8. The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

The applicant currently operates three MRI units and agrees to continue to supply all required data as described.

9. In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be evaluated, and Principle No. 2 in the State Health Plan, "Every citizen should have reasonable access to health care," the HSDA may decide to give special consideration to an applicant:

a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration;

According to the Health Resources and Services Administration website, all counties of the service area are designated as being medically underserved.

b. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program; or

Erlanger is classified by the Bureau of TennCare as a safety net hospital and also as a children's hospital.

c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program.

The applicant currently participates in the Medicare and TennCare/Medicaid programs. The applicant currently contracts with United Healthcare Community Plan, BlueCare, Amerigroup Community Care, and TennCare Select and will do so after the approval of this CON.