

**METROPOLITAN NASHVILLE GENERAL HOSPITAL**  
(An Enterprise Fund of the Hospital Authority of the Metropolitan  
Government of Nashville and Davidson County, Tennessee)

Basic Financial Statements, Required Supplementary  
Information, and Schedule

June 30, 2017 and 2016  
(With Independent Auditors' Report Thereon)

METROPOLITAN NASHVILLE GENERAL HOSPITAL  
(AN ENTERPRISE FUND OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN  
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)

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## **METROPOLITAN NASHVILLE GENERAL HOSPITAL**

### **INTRODUCTION**

Metropolitan Nashville General Hospital (“Hospital”) is pleased to present its Annual Financial Report for the years ended June 30, 2017 and 2016.

#### **Responsibility and Controls**

The Hospital has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting control maintains an appropriate cost/benefit relationship.

The Hospital’s system of internal accounting control is evaluated on an ongoing basis by the Hospital’s internal financial staff. Crosslin, PLLC, our external auditors, also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Management believes that its policies and procedures provide guidance and reasonable assurance that the Hospital’s operations are conducted according to management’s intentions and to a high standard of business ethics. In management’s opinion, the financial statements present fairly, in all material respects, the financial position of the Hospital as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

#### **Audit Assurance**

The unmodified opinion of our independent external auditors, Crosslin, PLLC, which includes an emphasis paragraph, is included in this report.

**METROPOLITAN NASHVILLE GENERAL HOSPITAL**  
**JUNE 30, 2017**

**BOARD OF TRUSTEES**

|                      |            |
|----------------------|------------|
| Jan Brandes, MD      | Chair      |
| Joel Sullivan        | Vice Chair |
| Michele Williams, MD | Secretary  |
| Harry Allen          | Member     |
| Howard Burley, MD    | Member     |
| Martha Ezell         | Member     |
| Sara Finley          | Member     |
| Henry Jacobson, MD   | Member     |
| Reggie Hill          | Member     |
| Richard Manson       | Member     |
| Frank Stevenson      | Member     |

**EXECUTIVE STAFF**

|                  |                               |
|------------------|-------------------------------|
| Dr. Joseph Webb  | Chief Executive Officer       |
| Bruce Naremore   | Chief Financial Officer       |
| Mark Brown       | Chief Operating Officer       |
| Ginger Woodside  | Chief Compliance Officer      |
| Marc E. Overlock | General Counsel               |
| Leon Dent, MD    | Interim Chief Medical Officer |
| Dawn Alexander   | Chief Nursing Officer         |
| Diana Wohlfahrt  | Director of Human Resources   |
| Melanie Thomas   | Chief Information Officer     |



## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the  
Hospital Authority of the Metropolitan Government  
of Nashville and Davidson County, Tennessee  
Nashville, Tennessee

We have audited the accompanying financial statements of the Metropolitan Nashville General Hospital (the “Hospital”), an enterprise fund of the Hospital Authority of the Metropolitan Government of Nashville and Davidson County, Tennessee (the “Hospital Authority”), which is a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of and for the years ended June 30, 2017 and 2016 and the related notes to the financial statements, which collectively comprise the Hospital’s basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

The Hospital’s management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the 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 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 entity’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 financial statements.

**C** To the Board of Trustees of the  
Hospital Authority of the Metropolitan Government  
of Nashville and Davidson County, Tennessee  
Nashville, Tennessee

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 financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Nashville General Hospital, an enterprise fund of the Hospital Authority of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows 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 financial statements, the financial statements of the Hospital present only the financial position and results of operations of the Hospital enterprise fund, and do not purport to, and do not present fairly, the financial position of the Hospital Authority or the Metropolitan Government of Nashville and Davidson County, Tennessee as of June 30, 2017 and 2016, the changes in their financial position, or, where applicable, their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in Note B to the financial statements, the Hospital has experienced recurring operating losses and inconsistent cash flows, their financial statements reflect current liabilities in excess of current assets, and the financial statements have an unrestricted net position deficit at June 30, 2017 and 2016. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters also are described in Note B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our opinion is not modified with respect to these matters.

***Other Matters***

***Required Supplementary Information:*** Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 6 to 11 and budgetary comparison information on Schedule I, be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 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 financial statements, and other knowledge we obtained during our audits of the basic 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.

**C** To the Board of Trustees of the  
Hospital Authority of the Metropolitan Government  
of Nashville and Davidson County, Tennessee  
Nashville, Tennessee

*Other Information:* Our audit was conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The introductory section is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

*Crosslin, PLLC*

October 31, 2017  
Nashville, Tennessee

## **METROPOLITAN NASHVILLE GENERAL HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS**

The discussion and analysis of the Metropolitan Nashville General Hospital's (Hospital) financial performance provides an overall review of the Hospital's financial activities for the fiscal years ended June 30, 2017 and 2016. The intent of this discussion and analysis is to provide information on the Hospital's financial performance as a whole. Readers should also review the notes to the basic financial statements in addition to the basic financial statements to enhance their understanding of the Hospital's financial performance.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The 127 year old Nashville General Hospital is one of the 325 safety net hospitals in the United States, and is an enterprise fund of the Hospital Authority of the Metropolitan Government of Nashville and Davidson County, Tennessee ("the Hospital Authority"), which is a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee (the Primary Government or Metro Government). The Hospital operates a 150 bed acute care hospital, extensive hospital based medical surgical subspecialty clinics, and it supports Our Kids Clinic, a renowned child sexual abuse clinic. The Hospital meets the IRS definition of a governmental unit and is therefore exempt from filing a Form 990 based on Internal Revenue Procedure 95-48. Located on the Meharry Medical College (Meharry) campus, the Hospital works closely with the school to accomplish its safety net mission while also serving as the primary index teaching hospital for Meharry's School of Medicine.

This annual report consists of the basic financial statements and notes to those statements. The statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows and related notes provide a detailed look at the specific financial activities of the Hospital and generally provide an indication of the Hospital's financial health. The statements of net position include all of the Hospital's assets and liabilities, using the accrual basis of accounting. The statements of revenues, expenses, and changes in net position report all of the revenues and expenses during the time period indicated. The statements of cash flows report the cash provided by and used in operating activities, noncapital financing activities, capital and related financing activities, (including the repayment of the capital lease obligation and capital additions) and investing activities.

### **Operational and Financial Highlights**

Fiscal year 2017 showed a continuation of initiatives and changes launched in 2016. Inpatient volume decreased 0.6%, but outpatient revenue grew 0.7%. These changes were due in part to the shorter inpatient lengths of stay and the continued transitioning of Emergency Room and other outpatients to the NCQA approved Patient-Centered Medical Home model, whereby there are protocols for at home follow up with ER and clinic patients in an effort to better manage their conditions from the hospital to their homes. This results in fewer recurring visits, readmissions and medical crises, and helps lower costs to best leverage the subsidy dollars from Metro Government and other sources, including self-generated patient revenues and other funds. Additionally, in 2017, the Hospital successfully procured, for the 7<sup>th</sup> consecutive year, the matching Federal Public Hospital Supplemental Pool Funds, which also assisted the Hospital's working capital and further leveraged their services and mission to the community.

Fiscal year 2017 saw the following operational accomplishments, noting specifically a drive to attract more patients:

- Continued growth in our new (non-teaching) primary care clinic: Nashville Healthcare Center. This is a clinic to treat patients who prefer a non-teaching environment in an effort to attract paying patients.
- Continued operation of the Nashville Community Pharmacy. The Hospital is able to benefit from an on-site pharmacy due to its ability to obtain inventory under the 340B Drug Pricing Program, which enables health care organizations that care for underserved people to purchase outpatient drugs at discounted prices.

**METROPOLITAN NASHVILLE GENERAL HOSPITAL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statements of Net Position**

The Hospital's net position increased \$13.5 million during fiscal 2017 to \$6.0 million, as compared to a deficit of \$7.5 million during fiscal 2016. The table below provides a summary of the Hospital's assets, liabilities, and net position at June 30, 2017, 2016, and 2015 as follows:

|   | <b>Statements of Net Position</b> |                  |                  |
|---|-----------------------------------|------------------|------------------|
|   | <b>2017</b>                       | <b>2016</b>      | <b>2015</b>      |
| <b>Assets and Deferred Outflows of Resources:</b>                                       |                                   |                  |                  |
| Current assets  | \$ 15,131                         | \$ 14,810        | \$ 12,074        |
| Capital assets, net   | 31,364                            | 30,791           | 30,204           |
| Other non-current assets  | -                                 | -                | -                |
| Deferred outflows of resources  | 2,326                             | 4,615            | 1,425            |
| <b>Total assets and deferred outflows of resources</b>                                  | <b>\$ 48,821</b>                  | <b>\$ 50,216</b> | <b>\$ 43,703</b> |
| <b>Liabilities and Deferred Inflows of Resources:</b>                                   |                                   |                  |                  |
| Current liabilities   | \$ 17,082                         | \$ 26,552        | \$ 28,855        |
| Obligations under capital leases, excluding<br>current installments                     | 20,445                            | 22,800           | 25,127           |
| Other noncurrent liabilities to Government  | 1,355                             | 6,523            | 3,062            |
| Deferred inflows of resources   | 3,942                             | 1,888            | 1,554            |
| <b>Total liabilities and deferred inflows of resources</b>                              | <b>42,824</b>                     | <b>57,763</b>    | <b>58,598</b>    |
| <b>Net position:</b>  |                                   |                  |                  |
| Invested in capital assets, net of related debt   | 8,411                             | 5,663            | (3,060)          |
| Unrestricted  | (2,414)                           | (13,210)         | (11,835)         |
| <b>Total net position</b>   | <b>5,997</b>                      | <b>(7,547)</b>   | <b>(14,895)</b>  |
| <b>Total liabilitites, deferred inflows of resources<br/>and net position (deficit)</b> | <b>\$ 48,821</b>                  | <b>\$ 50,216</b> | <b>\$ 43,703</b> |

**Assets**

Current assets increased \$0.3 million in fiscal year 2017 compared to an increase of \$2.7 million in 2016. The 2017 increase is primarily attributable to a reduction in accounts receivable reserves accrued in the prior year for untimely filing consequences. Unbilled days in accounts receivable has dropped to 12.3 at June 30, 2017 from 31.3 at June 30, 2016. Net capital assets increased \$0.6 million in both of the 2017 and 2016 fiscal years. No capital funds are included in the Metro Government Capital Budget Plan for fiscal year 2018, however the Primary Government did approve a \$1 million allocation to the Hospital for the first quarter of fiscal year 2018. Deferred outflows decreased in 2017 by \$2.3 million and increased in 2016 by \$3.2 million related to pension activities.

**METROPOLITAN NASHVILLE GENERAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Liabilities**

Current liabilities for fiscal year 2017 decreased \$9.5 million, mainly due to a reduction of accounts payable of \$7.4 million.

Current liabilities for fiscal year 2016 decreased \$2.3 million, mainly due to the re-payment to the Primary Government of previously deferred allocated costs of \$6.0 million during the year, offset by increases in accounts payable, accrued expenses and estimated third-party settlements.

Long-term liabilities decreased \$7.5 million in fiscal year 2017. The decrease was due to the payments on capital lease obligations and a \$5.2 million decrease in net pension liability.

Long-term liabilities increased \$1.1 million in fiscal year 2016. The increase was due to the increase in net pension liability of \$3.4 million, offset by a decrease in capital lease obligations of \$2.3 million.

**METROPOLITAN NASHVILLE GENERAL HOSPITAL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statements of Revenues, Expenses, and Changes in Net Position**

The table below shows the changes in revenues, expenses, and net position for fiscal 2017 compared to fiscal 2016 and fiscal 2015 as follows:

**Statements of Revenues, Expenses, and Changes in Net Position**  
**(In Thousands)**

|   | <i>2017</i>     | <i>2016</i>       | <i>2015</i>        |
|---|-----------------|-------------------|--------------------|
| <b>Operating revenues:</b>  |                 |                   |                    |
| Net patient service revenue (net of provision<br>for bad debts of \$29,860 in 2017, \$33,680 in 2016 and<br>\$22,728 in 2015) | \$ 42,391       | \$ 40,798         | \$ 40,913          |
| State of Tennessee essential access/safety net revenue  | 15,293          | 16,586            | 14,182             |
| Other   | 4,271           | 2,836             | 2,678              |
| <b>Total operating revenues</b>   | <b>61,955</b>   | <b>60,220</b>     | <b>57,773</b>      |
| <b>Operating expenses:</b>  |                 |                   |                    |
| Professional care of patients   | 66,539          | 64,755            | 61,311             |
| Household and property  | 7,089           | 6,622             | 5,634              |
| Dietary   | 1,845           | 1,718             | 1,574              |
| Administrative and general  | 17,332          | 15,931            | 16,735             |
| Allocation under metropolitan government<br>wide cost allocation plan   | -               | -                 | -                  |
| Depreciation and amortization   | 5,391           | 3,610             | 3,610              |
| <b>Total operating expenses</b>   | <b>4,947</b>    | <b>4,054</b>      | <b>3,849</b>       |
| <b>Operating loss</b>   | <b>103,143</b>  | <b>96,690</b>     | <b>92,713</b>      |
| <b>Nonoperating revenues (expenses):</b>  |                 |                   |                    |
| Revenue from the Government   | 50,296          | 39,536            | 27,668             |
| Change in net pension liability   | 824             | (605)             | 841                |
| Interest expense  | (1,806)         | (1,956)           | (2,136)            |
| <b>Gain (loss) on forgiveness of amounts due to/from:</b>   |                 |                   |                    |
| Other Hospital Authority entities   | -               | 73                | (724)              |
| Contracted indigent care providers  | -               | 2,226             | -                  |
| <b>Total nonoperating revenues, net</b>   | <b>49,315</b>   | <b>39,274</b>     | <b>25,649</b>      |
| <b>(Deficiency) Excess of revenues over expenses<br/>before capital contribution</b>  |                 |                   |                    |
| Capital contribution from the Government  | 8,127           | 2,803             | (9,290)            |
| Increase (decrease) in net position   | 5,417           | 4,544             | 5,804              |
| Net position, beginning of year before restatement  | 13,544          | 7,347             | (3,486)            |
| Adjustment to record net pension liability and related<br>deferred outflows and inflows of resources                          | (7,547)         | (14,894)          | (7,377)            |
| <b>Net position, end of year</b>  | <b>\$ 5,997</b> | <b>\$ (7,547)</b> | <b>\$ (14,894)</b> |

**METROPOLITAN NASHVILLE GENERAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Operating Revenues**

During fiscal year 2017, total operating revenues increased \$1.7 million or 2.9% compared to fiscal year 2016. The increase resulted primarily from a \$2.0 million reduction in our reserve due to a decrease in unbilled days in accounts receivable.

Net patient service revenue remained relatively consistent for fiscal year 2017 in comparison to 2016. The Net Revenue realization rate improved from 16.7% to 17.3% due mainly to a decrease in charity and bad debt write-offs, partially offset by an increase in contractual adjustments as a percentage of gross revenue.

Key volume indicators from fiscal year 2017 included a decrease in admissions of 42 or 1.19%, a decrease in patient days of 654 or 4%, a decrease in ER visits of 3,507 or 9.9%, a decrease in clinic visits of 493 or 1.4%, and a decrease in surgeries of 236 or 9.7%. Even with these declines in volume from the prior year, total revenues received remained flat. The Hospital received funding from the Metro Government (approximately \$34 million) in fiscal year 2017 for operational assistance. The Metro Government also funded an additional \$16 million to help with cash flow during the year. As a TennCare safety net provider, the Hospital received State funding of approximately \$15.3 million in essential access and safety net funding in fiscal year 2017.

|  | <i>Fiscal 2017</i> | <i>Fiscal 2016</i> |
|--|--------------------|--------------------|
|  | <i>Change Over</i> | <i>Change Over</i> |
|  | <i>Prior Year</i>  | <i>Prior Year</i>  |
| Net patient service revenue:                   |                    |                    |
| Volume changes                                 | \$ (2,923)         | \$ (2,232)         |
| Rate, mix and other changes                    | 696                | 13,069             |
| Decrease (increase) in provision for bad debts | 3,820              | (10,952)           |
| Total net patient service revenue changes      | \$ 1,593           | \$ (115)           |

**Operating Expenses**

Fiscal year 2017 total operating expenses increased \$6.5 million or 6.7% over fiscal year 2016. The increase is primarily due to new hospitalist services (\$1.3 million), increased coverage in anesthesia (\$0.6 million), increased volume in hemodialysis services (\$0.1 million), outpatient pharmacy costs due to new retail pharmacy and inflationary costs (\$0.9 million), and increases in depreciation expenses due to the capitalization of completed capital projects (\$0.9 million). Fiscal year 2016 total operating expenses increased \$4.0 million or 4.3% over fiscal year 2015, primarily due to increase in labor (including contract/agency) and benefits.

Fiscal year 2017 salaries and benefits increased approximately \$3.1 million or 9.7% from fiscal year 2016. Fiscal year 2016 salaries and benefits increased approximately \$5 million or 11.6% from fiscal year 2015. Fiscal year 2017 Full Time Equivalents (FTEs) declined slightly (30 FTEs, 4.6%) from prior year while fiscal year 2016 Full Time Equivalents (FTEs) increased by 37 or 6.4% over prior year. Fiscal year 2017 and 2016 hospital-only FTEs per adjusted occupied beds were 3.84 and 3.70, respectively. The Hospital granted employees an across the board general wage increase in July 2016 of 3.1% to keep wages competitive with the local healthcare market.

**METROPOLITAN NASHVILLE GENERAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Primary contributors to the significant non labor expense increase in fiscal years 2017, 2016, and 2015 were as follows:

|                                   | <b>Nonlabor Expenses</b><br>(In Thousands) |                  |                  |
|-----------------------------------|--|------------------|------------------|
|                                   | <b>2017</b>                                | <b>2016</b>      | <b>2015</b>      |
| Nonlabor expenses:                |  |                  |                  |
| Supplies                          | \$ 15,809                                  | \$ 14,984        | \$ 14,035        |
| All other nonlabor expense        | 28,038                                     | 27,125           | 27,989           |
| Total nonlabor operating expenses | <u>\$ 43,847</u>                           | <u>\$ 42,109</u> | <u>\$ 42,024</u> |

**Next Year's Budget**

The Hospital Authority Board of Trustees (the Board) reviewed and approved the Hospital's revised fiscal year 2018 operating budget at their February 2017 meeting. The fiscal year 2018 budget was developed by reviewing historical trends, key volume indicators, anticipated changes to the Medicare and TennCare programs, as well as the projected effect of several strategic initiatives to be implemented during 2018. The 2018 fiscal year budget anticipates an increase in inpatient admissions (1.8%) and decrease in inpatient days with the average length of stay projected to decline (-4.5% or 651 days) from fiscal year 2017. In the outpatient arena, emergency room visits are projected to decrease 3% (970). Clinic visits are projected to increase 14.7% (4661 visits). Patient charges were increased 5% effective July 1, 2016, which, when coupled with volume changes, resulted in a 0.5% increase in gross patient charges (\$1.1 million). Gross Revenues display growth along with growth in Net Patient Revenues of 2.2% (\$907 thousand). The fiscal year 2018 budget includes 3% merit increase and an increase of 12.45 FTE. The Hospital budgeted \$2.2 million in State of Tennessee essential access funding plus additional state funding of \$2.5 million. The Board requested a Metro Government subsidy of \$55.7 million for fiscal year 2018 which is higher than the \$44.6 subsidy received in fiscal year 2017. Metro Government allocated \$35 million subsidy for fiscal year 2018. The Hospital Authority Board began discussing additional hospital initiatives to manage within available funding, and in November, 2017, the Board approved a request for a supplemental operating subsidy which will be forwarded to the Council in December, 2017 or January, 2018.

The fiscal year 2018 budget includes anticipated \$10.9 million of Public Hospital Supplemental Payments which are federally-funded grant dollars given to aid public safety net hospitals that are deemed essential providers. These funds are authorized via an amendment to the TennCare Program Waiver legislation and are effective though 2018 when the next approval process is scheduled for the State Waiver. Fiscal year 2018 represents the eighth consecutive year the Hospital has received these federal matching dollars.

**METROPOLITAN NASHVILLE GENERAL HOSPITAL**  
**(AN ENTERPRISE FUND OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN**  
**GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2017 AND 2016**

|  | <b>2017</b>          | <b>2016</b>    |
|--|----------------------|----------------|
| <b>Assets and Deferred Outflows of Resources</b>   |                      |                |
| Current assets:  |                      |                |
| Cash   | \$ <b>898,573</b>    | \$   1,328,822 |
| Patient accounts receivable, net of estimated uncollectibles of \$46,996,037 and \$50,908,098 in 2017 and 2016 | <b>8,966,348</b>     | 8,962,538      |
| Other receivables  | <b>388,406</b>       | 656,438        |
| Due from State of Tennessee  | <b>565,307</b>       | 578,334        |
| Due from the Primary Government  | <b>283,408</b>       | 100,540        |
| Inventories  | <b>3,037,653</b>     | 2,529,390      |
| Prepaid expenses   | <b>886,698</b>       | 549,771        |
| Other current assets   | <b>104,929</b>       | 104,829        |
| Total current assets   | <b>15,131,322</b>    | 14,810,662     |
| Capital assets, net  | <b>31,363,825</b>    | 30,790,675     |
| Total assets   | <b>46,495,147</b>    | 45,601,337     |
| Deferred outflows of resources   | <b>2,326,460</b>     | 4,614,817      |
| Total assets and deferred outflows of resources  | <b>\$ 48,821,607</b> | \$ 50,216,154  |
| <b>Liabilities, Deferred Inflows of Resources and Net Position</b>   |                      |                |
| Current liabilities:   |                      |                |
| Current installments of obligation under capital lease   | \$ <b>2,507,903</b>  | \$   2,327,298 |
| Accounts payable   | <b>11,335,149</b>    | 18,775,574     |
| Accrued expenses   | <b>2,862,044</b>     | 4,364,568      |
| Estimated third-party settlements  | <b>377,169</b>       | 1,084,999      |
| Total current liabilities  | <b>17,082,265</b>    | 26,552,439     |
| Obligation under capital lease, excluding current installments   | <b>20,444,841</b>    | 22,800,319     |
| Net Pension Liability  | <b>1,355,498</b>     | 6,522,524      |
| Total liabilities  | <b>38,882,604</b>    | 55,875,282     |
| Deferred inflows of resources  | <b>3,941,885</b>     | 1,887,635      |
| Total liabilities and deferred inflows of resources  | <b>42,824,489</b>    | 57,762,917     |
| Net position:  |                      |                |
| Invested in capital assets, net of related debt  | <b>8,411,081</b>     | 5,663,057      |
| Unrestricted deficit   | <b>(2,413,963)</b>   | (13,209,820)   |
| Total net position (deficit)   | <b>5,997,118</b>     | (7,546,763)    |
| Total liabilities, deferred inflows of resources and net position (deficit)                                    | <b>\$ 48,821,607</b> | \$ 50,216,154  |

See accompanying notes to basic financial statements.

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**(AN ENTERPRISE FUND OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN**  
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**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED JUNE 30, 2017 AND 2016**

**2017**

**2016**

|  |                     |                       |
|--|---------------------|-----------------------|
| Operating revenues:  |                     |                       |
| Patient service revenue, net of contractual allowances and discounts | \$ 72,250,432       | \$ 74,477,380         |
| Provision for bad debts  | (29,859,449)        | (33,679,843)          |
| Net patient service revenue  | 42,390,983          | 40,797,537            |
| State of Tennessee essential access/safety net revenue               | 15,293,106          | 16,586,897            |
| Other  | 4,271,289           | 2,836,025             |
| Total operating revenues   | <b>61,955,378</b>   | 60,220,459            |
| Operating expenses:  |                     |                       |
| Professional care of patients  | 66,539,441          | 64,754,686            |
| Household and property   | 7,088,780           | 6,621,830             |
| Dietary  | 1,844,555           | 1,718,060             |
| Administrative and general   | 17,332,133          | 15,931,308            |
| Allocation under Primary Governmental-wide cost allocation plan      | 5,391,321           | 3,609,900             |
| Depreciation   | 4,947,034           | 4,054,252             |
| Total operating expenses   | <b>103,143,264</b>  | 96,690,036            |
| Operating loss   | <b>(41,187,886)</b> | (36,469,577)          |
| Nonoperating revenues (expenses):                                    |                     |                       |
| Revenue from the Government  | 50,296,226          | 39,535,960            |
| Change in net pension liability                                      | 824,419             | (604,821)             |
| Interest expense   | (1,805,876)         | (1,956,133)           |
| Gain on forgiveness of amounts due to/from:                          |                     |                       |
| Other Hospital Authority entities                                    | -                   | 72,783                |
| Contracted indigent care providers                                   | -                   | 2,225,835             |
| Total nonoperating revenues, net                                     | <b>49,314,769</b>   | 39,273,624            |
| Excess of revenues over expenses before capital contribution         | 8,126,883           | 2,804,047             |
| Capital contribution from the Government                             | 5,416,998           | 4,544,227             |
| Increase in net position   | <b>13,543,881</b>   | 7,348,274             |
| Net (deficit) beginning of year                                      | <b>(7,546,763)</b>  | (14,895,037)          |
| Net position (deficit), end of year                                  | <b>\$ 5,997,118</b> | <b>\$ (7,546,763)</b> |

See accompanying notes to basic financial statements.

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**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2017 AND 2016**

|   | <b>2017</b>            | <b>2016</b>     |
|---|------------------------|-----------------|
| Cash flows from operating activities:   |                        |                 |
| Cash received from patients and third-party payers                                | \$ 41,679,344          | \$ 39,419,059   |
| Other cash receipts   | 19,845,458             | 19,500,413      |
| Cash payments to suppliers  | (57,967,137)           | (44,381,165)    |
| Cash payments to and on behalf of employees                                       | <u>(50,017,330)</u>    | (43,088,548)    |
| Net cash used in operating activities   | <u>(46,459,665)</u>    | (28,550,241)    |
| Cash flows from noncapital financing activities:                                  |                        |                 |
| Advances to other Hospital Authority entities                                     | -                      | 72,783          |
| Net cash received from the Primary Government                                     | <u>50,296,226</u>      | 39,535,960      |
| Net cash provided by noncapital financing activities                              | <u>50,296,226</u>      | 39,608,743      |
| Cash flows from capital and related financing activities:                         |                        |                 |
| Acquisitions of capital assets, net of disposals                                  | (5,346,677)            | (4,641,264)     |
| Net changes in amounts due the Government   | (182,868)              | (6,074,537)     |
| Capital contribution from the Government  | 5,416,998              | 4,544,227       |
| Repayment of obligations under capital leases:                                    |                        |                 |
| Principal   | (2,348,387)            | (2,162,473)     |
| Interest  | <u>(1,805,876)</u>     | (1,956,133)     |
| Net cash used in capital and related financing activities                         | <u>(4,266,810)</u>     | (10,290,180)    |
| Net (decrease) increase in cash and cash equivalents                              | <u>(430,249)</u>       | 768,322         |
| Cash, beginning of year   | <u>1,328,822</u>       | 560,500         |
| Cash, end of year   | <u>\$ 898,573</u>      | \$ 1,328,822    |
| Reconciliation of operating loss to net cash used in operating activities:        |                        |                 |
| Operating loss  | \$ (41,187,886)        | \$ (36,469,578) |
| Adjustments to reconcile operating loss to net cash used in operating activities: |                        |                 |
| Depreciation  | 4,947,034              | 4,054,252       |
| Estimated provision for bad debts   | <u>29,859,449</u>      | 33,679,843      |
| Changes in:   |                        |                 |
| Patient accounts receivable   | (29,863,253)           | (35,268,718)    |
| Other receivables   | 268,032                | (235,538)       |
| Due from State of Tennessee   | 13,027                 | 21,758          |
| Inventories   | (508,263)              | (167,563)       |
| Prepaid expenses  | (336,927)              | 207,349         |
| Other current assets  | (100)                  | (104,829)       |
| Accounts payable  | (7,440,425)            | 4,734,564       |
| Accrued expenses  | (1,502,523)            | 496,550         |
| Estimated third-party settlements   | <u>(707,830)</u>       | 501,668         |
| Net cash used in operating activities   | <u>\$ (46,459,665)</u> | \$ (28,550,243) |

See accompanying notes to basic financial statements.

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A. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying basic financial statements encompass the financial activities of the Metropolitan Nashville General Hospital (“Hospital”). The Hospital is an enterprise fund of the Hospital Authority of the Metropolitan Government of Nashville and Davidson County, Tennessee (the Hospital Authority), which is a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee (the Primary Government or Metro Government), and, accordingly, is discretely presented in the Comprehensive Annual Financial Report of the Primary Government. The Hospital Authority was created March 2, 1999 to operate both the Hospital and Bordeaux Long-Term Care in lieu of the prior Board of Hospitals. The Hospital is governed by Trustees of the Hospital Authority appointed by the Mayor of the Primary Government.

The accompanying basic financial statements of the Hospital have been prepared in accordance with the accounting and reporting guidelines set forth in the American Institute of Certified Public Accountants’ Audit and Accounting Guide *Health Care Organizations*.

Measurement Focus and Basis of Accounting

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

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A. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

The Hospital is an enterprise fund of the Hospital Authority, which is a component unit of the Primary Government, and is consequently exempt from Federal and State income taxes. The Hospital has no uncertain tax positions at June 30, 2017 and 2016.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and highly liquid short-term investments with a maturity of three months or less at date of purchase. There were no cash equivalents at June 30, 2017 or 2016.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established customary rates. Since the Hospital does not pursue collection of accounts determined to qualify as charity care, they are not reported as revenue.

Net Patient Service Revenue

Net patient service revenue is recorded on an accrual basis at estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations.

Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to audits, reviews, and investigations. Contractual adjustments arise due to the terms of certain reimbursement contracts. Such adjustments represent the difference between established rates and estimated reimbursable amounts and are recognized in the period the services are rendered. Any differences between estimated contractual adjustments and actual final settlements under reimbursement contracts are reported as contractual adjustments in the year final settlements are determined.

Patient Accounts Receivable

Patient accounts receivable are reported net of both an allowance for uncollectible accounts and an estimated allowance for contractual adjustments. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, Medicaid, and other third-party payment programs. The allowance for uncollectible accounts is estimated based upon the age of the patient accounts receivable, prior experience and any unusual circumstances (such as local, regional or national economic conditions) which affect the collectability of receivables, including management's assumptions about conditions it expects to exist and courses of action it expects to take. The Hospital's policy does not require collateral or other security for patient accounts receivable. The Hospital routinely accepts assignment of, or is

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**A. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies such as those related to Medicare, Medicaid, Blue Cross, health maintenance organizations and commercial insurance carriers.

**Inventories**

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out method) or market.

**Capital Assets**

Capital assets are recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. The costs of normal maintenance and repairs that do not add to the value of the asset are not capitalized. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method of depreciation using these asset lives:

|  |             |
|--|-------------|
| Buildings, structures and improvements | 30-40 years |
| Equipment                              | 5-15 years  |
| Vehicles                               | 5 years     |
| Computer software                      | 3 years     |

Capital assets under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the assets. Such amortization is included in depreciation and amortization in the basic financial statements.

Property under capital lease is stated at the lower of the present value of future minimum lease payments or the fair value at the inception of the lease.

**Impairment of Capital Assets**

Capital assets are reviewed for impairment when service utility has declined significantly and unexpectedly. If such assets are no longer used, they are reported at the lower of carrying value or fair value. If such assets will continue to be used, the impairment loss is measured using a historical cost approach method that best reflects the diminished service utility of the capital asset. No charge related to impairment matters was required during 2017 and 2016.

**Government-wide Cost Allocation Plan**

The government-wide cost allocation plan was developed by the Primary Government to define and distribute certain direct and indirect costs incurred by the Primary Government to the individual user departments and agencies within the Primary Government. The Hospital's allocated share of such costs is reflected as operating expenses.

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A. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Net Position

Net position of the Hospital is classified in two components. Net position invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation, reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets, including certain amounts due to the Primary Government. Unrestricted net position represents the remaining net position. There was no restricted net position at June 30, 2017 and 2016.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services – the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Compensated Absences

Employees accumulate vacation, holiday, and sick leave at varying rates depending upon their years of continuous service and their payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation time at their regular rate of pay. Since the employees' vacation time both accumulates and vests, an accrual for this liability is included in accrued expenses in the accompanying balance sheets.

Deferred Outflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resource (expense) until then. The amount for pensions relates to certain differences between projected and actual actuarial results and certain differences between projected and actual investments earnings, which are accounted for as deferred outflows of resources.

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A. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. The amount for pensions relates to certain differences between projected and actual actuarial results and certain differences between projected and actual investment earnings, which are accounted for as deferred inflows of resources.

Subsequent Events

The Hospital evaluated all events and transactions that occurred after June 30, 2017 through October 31, 2017, the date the financial statements were available to be issued. Management did not note any material subsequent events that required recognition or disclosure in the 2017 financial statements.

Enterprise Fund

Bordeaux Long-Term Care and Knowles Home have been enterprise funds of the Hospital Authority. Effective March 31, 2014, Knowles Home operations were discontinued. Effective September 9, 2016, the Primary Government assumed direct management, oversight and control of Bordeaux Long-Term Care. The Primarily Government also assumed all of their assets and the majority of their liabilities. The Hospital Authority no longer has any management authority, oversight or financial responsibility for these entities, with the exception of their legacy benefit costs, which have been historically reduced from the government subsidy dollars allocated to the Hospital.

Going forward, the operational and financial management and results of these entities will be reflected directly under the Primary Government, and only the legacy benefit costs will be reflected under the Hospital financial results.

Reclassifications

Certain reclassifications of prior year amounts have been made to conform to the current year presentation.

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**A. DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Recent Accounting Pronouncements**

The following are recent accounting pronouncements that management expects to have a significant impact on the Hospital's financial statements in the upcoming period:

The Hospital plans to adopt GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, required for fiscal periods beginning after June 15, 2017, in fiscal 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

**B. REVENUE FROM AND ECONOMIC DEPENDENCY ON THE PRIMARY GOVERNMENT**

The accompanying basic financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements for the years ended June 30, 2017 and 2016, the Hospital experienced operating losses of approximately \$41,200,000 and \$36,500,000 for the years ended June 30, 2017 and 2016, respectively. Current liabilities exceeded current assets by approximately \$2,000,000 and \$11,700,000 at June 30, 2017 and 2016, respectively, and the Hospital reflected an unrestricted net deficit position of approximately \$2,400,000 and \$13,200,000 at June 30, 2017 and 2016. The Hospital's financial activities resulted in net cash used in operating activities of approximately \$(46,500,000) and \$(28,600,000) for the years ended June 30, 2017 and 2016, respectively, which was funded by the Primary Government in the form of nonoperating revenue advances.

The Hospital is and will be dependent upon the Primary Government to subsidize current and future operations. The Primary Government budgeted and legally approved approximately \$35,000,000 for the Hospital Authority in fiscal 2017 and 2016, portions of which were allocated to what are now former enterprise funds of the Hospital. In addition, the Primary Government approved additional infusions of \$16,000,000 and \$10,000,000 during fiscal 2017 and 2016, respectively. The Primary Government has approved a \$35,000,000 subsidy for fiscal year 2018, and the Hospital Authority Board has indicated it approved a resolution to request an additional operating supplemental appropriation in December 2017 or January, 2018, to fully fund its operations.

The accompanying basic financial statements do not include any adjustments relating to the recoverability and classification of liabilities that might be necessary should the Hospital be unable to continue as a going concern. The Hospital's ability to continue as a going concern is dependent upon its ability to generate sufficient cash flows to meet its obligations on a timely basis and ultimately to maintain a level in which operating revenues and revenue from the Primary Government exceed operating expenses. The Hospital has undertaken several measures to increase

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**B. REVENUE FROM AND ECONOMIC DEPENDENCY ON THE  
PRIMARY GOVERNMENT - Continued**

cash flow including implementing several strategic operational initiatives, as well as the renegotiating of several material service agreements to enhance the quality of services in a more efficient manner. However, it appears that the budgeted subsidy approved by the Primary Government will be insufficient to supplement the Hospital's losses and cash flow needs, the Hospital may require additional, non-budgeted funding from the Primary Government.

The Hospital is continuing forward with the implementation of an Operational and Strategic Plan focused on key service line development, a robust staffing and productivity system, the expansion of its 340B Pharmacy program, and strong improvements including a Pharmacy formulary, a commitment to drug and supply standardization, deeper use of Group Purchasing Organization pricing, and greatly reduced par levels across the supply chain. These improvements, along with a much tighter clinical and financial care review process designed to reduce spending on outside patient referrals for work that can be performed on campus – have contributed to a more sustainable business model going forward. These efforts have gained traction, and along with significant investments and improvements in our Revenue Cycle capabilities, they have helped the Hospital address some of the financial challenges facing a safety net, index teaching hospital.

**C. CASH AND INVESTMENTS**

The Hospital Authority is authorized by policy to invest funds that are not immediately needed in: direct government and agency obligations; "A" rated or better municipal bonds and A1/P1 corporate commercial paper; Government secured certificates of deposit and repurchase agreements; and other investments permitted by Tennessee Law. The Hospital Authority is authorized to invest in these instruments either directly or through the Metro Investment Pool (MIP).

Deposits in financial institutions are required by state statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and must have a total minimum market value of at least 105% of the average daily balance of the deposits placed in the institutions, less the amount protected by federal depository insurance. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's collateral pool.

As of June 30, 2017 and 2016, all of the Hospital's deposits were held by financial institutions which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. Participating banks determine the aggregated balance of their public fund accounts for the Hospital. The amount of collateral required to secure these deposits must be at least 105% of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of custodial credit risk disclosure.

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**D. NET PATIENT SERVICE REVENUE**

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Amounts earned under contractual arrangements with the Medicare and Medicaid (TennCare) programs are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. In the opinion of management, adequate provision has been made for any adjustments which may result from such reviews. Activity with respect to these reviews has increased and is expected to continue to increase in the future. No additional specific reserves have been established with regard to possible increased reviews in the future as management is not able to estimate such amounts. In addition, participation in these programs subjects the Hospital to significant rules and regulations; failure to adhere to such could result in fines, penalties or expulsion for the programs. A summary of the payment arrangements with major third-party payers follows:

**Medicare**

The Hospital is paid for substantially all inpatient and outpatient acute care services rendered to Medicare program beneficiaries at prospectively determined rates. Such rates vary according to various patient classification systems that are based on clinical, diagnostic, and other factors. Certain education costs and other reimbursable items are reimbursed, subject to defined limits on the basis of reasonable cost and other retroactive determination methods. The Hospital receives cash payments at a tentative rate with final settlement determined after the Hospital's submission of annual cost reports and audits thereof by the Medicare Administrative Contractor. The Hospital's classification of patients under the Medicare Prospective Payment System and the appropriateness of the patients' admissions are subject to validation reviews. The Hospital's Medicare cost reports have been filed through June 30, 2016 and audited by the Medicare Administrative Contractor through June 30, 2015. Management has estimated the cost report settlement for the years ended June 30, 2016 and 2017. In the opinion of management, adequate provision has been made in the basic financial statements for the effects of estimated final settlements.

**TennCare**

The TennCare program is a managed care program implemented by the State of Tennessee to provide healthcare coverage to those previously eligible for Medicaid as well as the uninsured population. The Hospital contracts with various managed care organizations under the TennCare program. TennCare reimbursement for both inpatient and outpatient services is based upon prospectively determined rates and per diem amounts.

The State of Tennessee designated the Hospital as an essential access hospital due to the Hospital's relatively high levels of government pay, bad debt, and charity care. In addition, an amendment was filed with TennCare on July 21, 2010 and approved December 31, 2010 which included the Hospital as a participant in the Public Hospital Supplemental Pool (PHSP), allowing additional payments to be made in the support of indigent care. The PHSP helps to ensure that the Hospital will have the financial resources needed to provide and improve access to health care services in the community served.

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**D. NET PATIENT SERVICE REVENUE - Continued**

The Hospital recognized approximately \$15,300,000 and \$16,600,000 of State of Tennessee essential access/safety net revenue in 2017 and 2016, respectively, including approximately \$10,450,000 and \$10,597,000 of PHSP funds in years 2017 and 2016, respectively. Subsequent to June 30, 2017, the Hospital has received approximately \$6,000,000 under the PHSP for 2018.

**Other**

The Hospital 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 discharge, per diem rates, and discounts from established charges.

The mix of net patient service revenue from patients and third-party payers for the years ended June 30 was as follows:

|                   | <b>2017</b> | <b>2016</b> |
|-------------------|-------------|-------------|
| Medicaid/TennCare | 18%         | 22%         |
| Medicare          | 15%         | 16%         |
| Other third-party | 11%         | 11%         |
| Self-pay          | 56%         | 51%         |
|                   | <hr/> 100%  | <hr/> 100%  |

Laws and regulations governing Medicare and TennCare programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. There were no significant adjustments of such estimates for the year ended June 30, 2017 and 2016.

Net patient service revenue for the years ended June 30, 2017 and 2016 comprised the following:

|                                  | <b>2017</b>         | <b>2016</b>         |
|----------------------------------|---------------------|---------------------|
| Gross charges                    | \$204,209,488       | \$199,625,265       |
| Less:                            |                     |                     |
| Contractual adjustments          | 115,068,196         | 110,467,275         |
| Provision for bad debts          | 29,859,449          | 33,679,843          |
| Other administrative adjustments | 16,890,861          | 14,680,610          |
| Net patient service revenue      | <hr/> \$ 42,390,982 | <hr/> \$ 40,797,537 |

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**D. NET PATIENT SERVICE REVENUE - Continued**

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts) is composed of the following for the years ended June 30, 2017 and 2016:

|                    | <b>2017</b>               | <b>2016</b>               |
|--------------------|---------------------------|---------------------------|
| Third-party payers | \$ 31,506,957             | \$ 29,780,542             |
| Self-pay patients  | 40,743,475                | 44,696,838                |
|                    | <hr/> <hr/> \$ 72,250,432 | <hr/> <hr/> \$ 74,477,380 |

In addition to charity (Note F), the Hospital also provides services to uninsured and underinsured patients that do not qualify for financial assistance. Based on historical experience, a significant portion of uninsured and underinsured patients are unable or unwilling to pay for their responsible amounts for services provided and a significant provision for bad debts is recorded in the period services are provided. Patient service revenue that has been written off as a bad debt was \$29,859,449 and \$33,679,843 for the years ended June 30, 2017 and 2016, respectively. These write-offs related primarily to self-pay patients. The Hospital's estimated allowance for uncollectible accounts was approximately 100% of self-pay accounts receivable at June 30, 2017 and 2016.

**E. PATIENT ACCOUNTS RECEIVABLE AND CONCENTRATIONS OF CREDIT RISK**

Patient accounts receivable consisted of the following as of June 30, 2017 and 2016:

|   | June 30,                 |                          |
|---|--------------------------|--------------------------|
|   | 2017                     | 2016                     |
| Gross patient accounts receivable                         | \$ 57,460,844            | \$ 61,500,375            |
| Less: Credit balances in accounts receivable              | (1,498,459)              | (1,629,739)              |
|   |                          |                          |
| Gross patient accounts receivable, net of credit balances | 55,962,385               | 59,870,636               |
| Less: Allowance for contractual adjustments               | (5,566,168)              | (8,272,457)              |
| Less: Allowance for doubtful accounts                     | (41,429,869)             | (42,635,641)             |
|   |                          |                          |
| Total allowances  | (46,996,037)             | (50,908,098)             |
|   |                          |                          |
| Net patient accounts receivable                           | <hr/> <hr/> \$ 8,966,348 | <hr/> <hr/> \$ 8,962,538 |

Credit balances in accounts receivable may initially result from overpayments received by payors, which are due back to the payor, or may be the result of billing and/or coding errors that resulted in credits. The ending balance of credits in accounts receivable consists of those credits that management believes to be liabilities as of June 30, 2017 and 2016, based on an analysis of such credits.

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**E. PATIENT ACCOUNTS RECEIVABLE AND CONCENTRATIONS OF CREDIT RISK - Continued**

The failure to remit refunds back to payors in accordance with applicable contractual requirements, laws and regulations could result in legal exposure, substantial penalties, contract termination and even exclusion from state or federal programs, including Medicare. As of June 30, 2017 and through the date of this report, management believes it is in compliance with applicable contracts, laws and regulations.

The Hospital grants credit without collateral to its patients, substantially all of whom are local residents. The mix of receivables from patients and third-party payers at June 30 was as follows:

|                     | <b>2017</b> | <b>2016</b> |
|---------------------|-------------|-------------|
| Medicaid / TennCare | 18%         | 20%         |
| Medicare            | 6%          | 11%         |
| Self-pay            | 58%         | 53%         |
| Other               | 18%         | 16%         |
|                     | <b>100%</b> | <b>100%</b> |

**F. CHARITY CARE**

The Hospital maintains records to identify and monitor the level of charity care it provides. The charges foregone for services and supplies furnished under its charity care policy amounted to the following for the years ended June 30:

|   | <b>2017</b>   | <b>2016</b>   |
|---|---------------|---------------|
| Charges foregone, based on established rates                                | \$ 40,318,922 | \$ 43,958,509 |
| Estimated cost of providing charity care                                    | \$ 15,746,833 | \$ 16,160,614 |
| Equivalent percentage of charity care patient care charges<br>to all served | 16.5%         | 17.9%         |

The estimated cost of providing charity care was determined using a ratio of cost to charges analysis.

**G. INVENTORIES**

A summary of inventories at June 30 was as follows:

|                        | <b>2017</b>         | <b>2016</b>         |
|------------------------|---------------------|---------------------|
| Central supply         | \$ 345,317          | \$ 243,994          |
| Operating room         | 759,803             | 840,210             |
| Pharmacy and solutions | 1,128,060           | 988,886             |
| Other                  | 804,473             | 456,300             |
| Total inventories      | <b>\$ 3,037,653</b> | <b>\$ 2,529,390</b> |

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**H. CAPITAL ASSETS**

A summary of capital assets and related activity as of and for the years ended June 30, 2017 and 2016 was as follows:

|   | <i>Balances at<br/>June 30,<br/>2016</i> | <i>Net<br/>Additions<br/>(Transfers)</i> | <i>Adjustments/<br/>Disposals</i> | <i>Balances at<br/>June 30,<br/>2017</i> |
|---|--|--|-----------------------------------|--|
| Capital assets not being depreciated:     |  |  |                                   |  |
| Projects in progress                      | \$ 4,001,677                             | \$ 5,313,227                             | \$(6,879,684)                     | \$ 2,435,220                             |
| Capital assets being depreciated:         |  |  |                                   |  |
| Buildings and improvements                | 50,793,272                               | 1,787,263                                | -                                 | 52,580,535                               |
| Equipment                                 | 43,770,963                               | 5,299,378                                | (47,853)                          | 49,022,488                               |
| Vehicles                                  | 30,747                                   | -  | -                                 | 30,747                                   |
| Total capital assets being<br>depreciated | 94,594,982                               | 7,086,641                                | (47,853)                          | 101,633,770                              |
| Less accumulated depreciation:            |  |  |                                   |  |
| Buildings and improvements                | 31,897,293                               | 1,819,210                                | -                                 | 33,716,503                               |
| Equipment                                 | 35,878,942                               | 3,127,646                                | (47,853)                          | 38,958,735                               |
| Vehicles                                  | 29,749                                   | 178                                      | -                                 | 29,927                                   |
| Total accumulated depreciation            | 67,805,984                               | 4,947,034                                | (47,853)                          | 72,705,165                               |
| Capital assets being depreciated,<br>net  | 26,788,998                               | 2,139,607                                | -                                 | 28,928,605                               |
| Capital assets, net                       | <u>\$ 30,790,675</u>                     | <u>\$ 7,452,834</u>                      | <u>\$(6,879,684)</u>              | <u>\$ 31,363,825</u>                     |

Buildings and equipment include assets under capital lease at June 30, 2017 of \$48,458,360. Accumulated depreciation related to these assets totaled \$31,507,496 at June 30, 2017 (Note I).

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**H. CAPITAL ASSETS - Continued**

|                                       | <i>Balances at</i>   | <i>Net Additions</i> | <i>Adjustments/</i>   | <i>Balances at</i>   |
|---------------------------------------|----------------------|----------------------|-----------------------|----------------------|
|                                       | <i>June 30,</i>      | <i>(Transfers)</i>   | <i>Disposals</i>      | <i>June 30,</i>      |
|                                       | <i>2015</i>          |                      |                       | <i>2016</i>          |
| Capital assets not being depreciated: |                      |                      |                       |                      |
| Projects in progress                  | \$ 1,491,721         | \$ 3,660,124         | \$ (1,150,168)        | \$ 4,001,677         |
| Capital assets being depreciated:     |                      |                      |                       |                      |
| Buildings and improvements            | 50,733,486           | 59,786               | -                     | 50,793,272           |
| Equipment                             | 41,699,440           | 2,071,523            | -                     | 43,770,963           |
| Vehicles                              | 30,747               | -                    | -                     | 30,747               |
| depreciated                           | 92,463,673           | 2,131,309            | -                     | 94,594,982           |
| Less accumulated depreciation:        |                      |                      |                       |                      |
| Buildings and improvements            | 30,183,466           | 1,713,827            | -                     | 31,897,293           |
| Equipment                             | 33,538,517           | 2,340,425            | -                     | 35,878,942           |
| Vehicles                              | 29,749               | -                    | -                     | 29,749               |
| Total accumulated depreciation        | 63,751,732           | 4,054,252            | -                     | 67,805,984           |
| Capital assets being depreciated, net | 28,711,941           | (1,922,943)          | -                     | 26,788,998           |
| Capital assets, net                   | <u>\$ 30,203,662</u> | <u>\$ 1,737,181</u>  | <u>\$ (1,150,168)</u> | <u>\$ 30,790,675</u> |

Projects in progress at June 30, 2017 consists primarily of capital items related to upgrading selected existing computer systems with current technology. There were approximately \$400,000 in commitments to complete these projects at June 30, 2017.

**I. CAPITAL LEASES**

The Primary Government has an agreement with Meharry Medical College to lease the Hubbard Hospital site on the Meharry campus. This agreement is accounted for as a capital lease. Under the terms of the Meharry lease agreement, the Hospital will lease the building for 30 years at \$4,000,000 a year, including imputed interest at 7.5% per annum. Lease payments began in December 1994, after Meharry Medical College and the Board of Hospitals agreed on a program of renovations by Meharry Medical College to the property.

In fiscal 2015, the Hospital entered into a new capital lease for computer software and hardware with a three-year term and requiring monthly payments of \$10,690, which contains a requirement to purchase the assets at a bargain price of \$1 by the end of the lease term.

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**I. CAPITAL LEASES - Continued**

A summary of future minimum lease payments required under these agreements as of June 30, 2017 is as follows:

Year ending June 30,

|            |                   |
|------------|-------------------|
| 2018       | \$ 4,135,846      |
| 2019       | 4,039,632         |
| 2020       | 4,039,632         |
| 2021       | 4,039,632         |
| 2022       | 4,008,960         |
| Thereafter | <u>9,666,667</u>  |
|            | <u>29,930,369</u> |

Less:

|  |                      |
|--|----------------------|
| Amount representing interest                 | 6,977,625            |
| Current obligation under capital lease       | <u>2,507,903</u>     |
| Long-term obligation under capitalized lease | <u>\$ 20,444,841</u> |

**J. AMOUNTS DUE TO AND FROM THE PRIMARY GOVERNMENT**

The Hospital has received advances from the Primary Government for certain approved capital asset projects. The advances have no declared interest rate or repayment terms. The Hospital's liabilities to (receivables from) the Primary Government for these approved capital asset projects and working capital amounts are as follows:

| <i>June 30, 2015</i> | <i>Additions</i> | <i>Repayments</i> | <i>June 30, 2016</i> | <i>Amounts Due<br/>Within One Year</i> |
|----------------------|------------------|-------------------|----------------------|--|
| \$ 5,973,997         | \$ -             | \$ (5,973,997)    | \$ -                 | -                                      |

There were no liabilities to (receivables from) the Primary Government at June 30, 2017 related to approved capital asset projects.

As of June 30, 2017, the Primary Government is to pay the Hospital \$283,408 in remaining subsidy for the year.

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**K. PENSION PLANS AND EMPLOYEE BENEFITS**

Employees of the Hospital participate in one of two plans that are available depending upon their hire date. Effective November 1, 2010, the Hospital established a defined contribution pension plan for all full-time employees hired on or after that date. These employees become eligible in this 401(a) Plan after completion of one year of service. Pension expense related to this plan was \$512,668 and \$353,217 for 2017 and 2016, respectively. Key components of the Pension Plan are as follows: 1) employer base contribution of 3% of salary; 2) employer matches up to 50% of first 4% employee voluntarily contributes to a separate 457 plan; and 3) 100% cliff vesting after three years of service. All legacy employees employed prior to November 1, 2010, are participants in the Metro defined-benefit pension plan sponsored by the Primary Government, as discussed below.

**Pension Plans of the Primary Government**

The Primary Government sponsors or guarantees several single-employer pension plans, including (a) the closed City Plan (City Plan), (b) the Davidson County Employees' Retirement Plan (County Plan), both of which were closed to new members on April 1, 1963, and (c) the Metropolitan Employees' Benefit Trust Division A or B (Metro Plan). Division A of the Metro Plan was established at the inception of the Primary Government on April 1, 1963, and was closed to new members on July 1, 1995. Division B of the Metro Plan was established on July 1, 1995.

All plans of the Primary Government were established by or continue under the authority of the Metropolitan Charter, Article XIII, effective April 1, 1963. Approval of the Metropolitan Council is required to establish and amend benefit provisions. Article XIII also requires that all pension plans be actuarially sound. Administrative costs of the plans are financed by plan assets. The plans are administered by the Metropolitan Employee Benefit Board, an independent board created by the Metropolitan Charter. The financial position and results of operations of the pension plans are reported as fiduciary funds of the Primary Government and, accordingly, are not included in the financial statements of the Hospital.

Certain employees of the Hospital are members of the Metro Plan. Periodic contributions by the Hospital to the Metro Plan are at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due. Contributions to closed plans are made on a pay-as-you-go basis whereby contributions are made in amounts sufficient to cover benefits paid during the year. Actuarially required employer contributions are not computed because the plans are closed and there are few active employees. Employees do not contribute to any of the Metro pension plans.

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**K. PENSION PLANS AND EMPLOYEE BENEFITS - Continued**

Normal retirement for employees occurs at age 65 for Division A and age 60 for Division B, and entitles employees to a lifetime monthly benefit as determined under the Metro Plan. Benefits fully vest on completing 5 years of service for employees employed on or between October 1, 2001 and December 31, 2012 and who vest before leaving employment.

A net pension liability has been recorded in the financial statement of the Hospital based on its pro rata share of the total net pension liability for the Primary Government. The net pension liability was \$1,355,498 and \$6,522,524 June 30, 2017 and June 30, 2016, respectively.

Certain differences between expected and actual actuarial experience and certain differences between projected and actual investment earnings are recorded as either deferred outflows of resources or deferred inflows of resources. The deferred outflows of resources were \$2,326,460 and \$4,614,817 at June 30, 2017 and 2016, respectively. These amounts will be recognized as pension expense in future years. The deferred inflows of resources were \$3,941,885 and \$1,887,635 at June 30, 2017 and 2016, respectively.

Contributions by the Hospital to the various Metro Plans totaled \$1,395,846 and \$2,001,907 for the years ended June 30, 2017 and 2016, respectively.

Additional information regarding the pension plans of the Primary Government is available in the Comprehensive Annual Financial Report which can be obtained from the Department of Finance, Financial Operations, 700 2nd Ave South, PO Box 196300, Nashville, TN, 37219-6300, or <http://www.nashville.gov/Finance/Financial-Operations.aspx>.

**L. HEALTH INSURANCE PROGRAM**

The Hospital's employees have the option to participate in the Metropolitan Employees' Medical Benefit Trust Fund (the Fund). Employer contributions to the Fund totaled \$1,244,939 and \$1,990,714 for 2017 and 2016, respectively. The fund is self-insured with maximum covered benefits of \$1,000,000 per participant for nonnetwork provider services and unlimited covered benefits for participants utilizing network covered services. The liability for claims payable is reflected in the applicable governmental activities in the statements of net position of the Primary Government.

**M. RISK MANAGEMENT PROGRAM**

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; and professional and general liability claims and judgment. The Hospital is a member of the Primary Government's self-insurance program with respect to such risks. Claims involving governmental tort liability are limited under the Governmental Tort Liability Act of the Tennessee Code. Any settlement of claims, which results in a liability against the Hospital, is payable entirely by the Primary Government's self-insurance program and is included in expenses allocated under primary government-wide costs (see Note A).

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**N. COMMITMENTS AND CONTINGENCIES**

In addition to the capital lease (Note I), the Hospital has entered into a Professional Services Agreement (PSA) with Meharry Medical College (Meharry) to provide various medical staffing throughout the facility and a separate lease to provide parking spaces in a parking garage adjacent to the hospital facility for the use of staff and patients. The PSA is amended and revised as necessary to accommodate the needs of the Hospital and to comply with various laws and regulations, as well as changes thereto. Expenses related to the PSA and parking lease were approximately \$6,000,000 and \$6,100,000, respectively, for the years ended June 30, 2017 and 2016. Operating expenses and accounts payable may include additional amounts related to Meharry for other services provided or amounts paid by Meharry and reimbursed by the Hospital in the normal course of business.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments which 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 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. 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.

The Hospital is subject to risk associated with its disposition and remittance of refunds due back to payors resulting from differences between paid amounts and the allowable reimbursements. Such risk may relate to the timeliness of refunds to the appropriate payors. The failure to remit refunds back to payors in accordance with applicable contractual requirements, laws and regulations could result in legal exposure, substantial penalties, contract termination and even exclusion from state or federal programs, including Medicare. As of June 30, 2017 and through the date of this report, management believes it is in compliance with applicable contracts, laws and regulations.

In March 2010, Congress adopted comprehensive health care 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.

From time to time, the Hospital has claims arise in the normal course of business related to employment, professional medical liability and other matters. Such claims could result in unfavorable outcomes that may or may not exceed insurance coverage limits. As of June 30, 2017 and 2016, there are no claims outstanding where a loss is deemed to be probable and can be reasonably estimated. Therefore, no related liabilities have been recorded as of June 30, 2017 and 2016.

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N. COMMITMENTS AND CONTINGENCIES - Continued

On September 22, 2016, management was notified by the Environmental Protection Agency (EPA) of a potential matter of noncompliance. Upon further communication, it was determined that the Hospital was not in compliance with certain of the EPA's regulations. The violations identified were as follows: 1) failure to notify the EPA of generator status; 2) failure to obtain a required EPA generator identification number; and 3) exceeding the threshold for small waste generators on one occasion in 2013. Management fully cooperated with the EPA through this process and has made the necessary steps to ensure current compliance with the EPA regulations. As a result of these compliance efforts, EPA issued a Consent Agreement that acknowledges the Hospital's initial violations, confirmed that the Hospital had come into compliance with RCRA regulations, and, based on the Hospital's ability to pay, the parties agreed on a nominal civil penalty of \$1,000. The Hospital paid this penalty on September 29, 2017. The Hospital received a letter dated August 7, 2017 from the Tennessee Department of Environment and Conservation, noting that its file would be closed with only a warning given to the Hospital.

The Hospital has obtained certain medical and other equipment under various operating lease agreements. The terms of these leases typically run for 36 to 60 months. The following are future minimum rental payments required as of June 30, 2017 under operating leases, including the parking lease which currently provides for lease of a certain number of spaces for a minimum lease payment of \$534,600 per year through 2028, that have original or remaining noncancelable lease terms in excess of one year:

|                                     |    |                  |
|-------------------------------------|----|------------------|
| 2018                                | \$ | 1,516,409        |
| 2019                                |    | 1,172,600        |
| 2020                                |    | 702,023          |
| 2021                                |    | 655,318          |
| 2022                                |    | 534,600          |
| Thereafter                          |    | 1,603,800        |
| Total future minimum lease payments | \$ | <u>6,184,750</u> |

## **SUPPLEMENTAL SCHEDULE**

**METROPOLITAN NASHVILLE GENERAL HOSPITAL**  
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**SCHEDULE 1**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**BUDGET (UNAUDITED) AND ACTUAL**  
**YEAR ENDED JUNE 30, 2017**

|   | <i>Budget</i><br><i>(Unaudited)</i> | <i>Actual</i>         | <i>Variance</i>     |
|---|-------------------------------------|-----------------------|---------------------|
| <b>Operating revenues:</b>  |                                     |                       |                     |
| Patient service revenue, net of contractual allowances and discounts    | \$ 82,209,801                       | \$ 72,250,432         | \$ (9,959,369)      |
| Provision for bad debts   | <u>(35,381,122)</u>                 | <u>(29,859,449)</u>   | <u>5,521,673</u>    |
| Net patient service revenue   | <b>46,828,679</b>                   | 42,390,983            | (4,437,696)         |
| State of Tennessee essential access/safety net revenue                  | <b>15,577,438</b>                   | 15,293,106            | (284,332)           |
| Other   | <u>6,622,077</u>                    | <u>4,271,289</u>      | <u>(2,350,788)</u>  |
| Total operating revenues  | <b>69,028,194</b>                   | 61,955,378            | (7,072,816)         |
| <b>Operating expenses:</b>  |                                     |                       |                     |
| Professional care of patients   | 65,607,914                          | 66,539,441            | 931,527             |
| Household and property  | 6,575,499                           | 7,088,780             | 513,281             |
| Dietary   | 1,779,673                           | 1,844,555             | 64,882              |
| Administrative and general  | <b>17,493,564</b>                   | 17,332,133            | (161,431)           |
| Allocation under Metropolitan Governmental-wide cost allocation plan    | <b>3,615,900</b>                    | 5,391,321             | 1,775,421           |
| Depreciation  | <u>4,268,789</u>                    | <u>4,947,034</u>      | <u>678,245</u>      |
| Total operating expenses  | <b>99,341,339</b>                   | 103,143,264           | 3,801,925           |
| Operating loss  | <b>(30,313,145)</b>                 | (41,187,886)          | (10,874,741)        |
| <b>Nonoperating revenues (expenses):</b>                                |                                     |                       |                     |
| Revenue from the Government   | 32,114,000                          | 50,296,226            | 18,182,226          |
| Change in net pension liability   | -                                   | 824,419               | 824,419             |
| Interest expense  | <b>(1,879,773)</b>                  | (1,805,876)           | 73,897              |
| <b>Gain (loss) on forgiveness of amounts due to/from:</b>               |                                     |                       |                     |
| Other Hospital Authority entities                                       | <b>145,566</b>                      | -                     | (145,566)           |
| Contracted indigent care providers                                      | -                                   | -                     | -                   |
| Total nonoperating revenues, net  | <b>30,379,793</b>                   | 49,314,769            | 18,934,976          |
| <b>Deficiency of revenues over expenses before capital contribution</b> | <b>66,648</b>                       | 8,126,883             | 8,060,235           |
| <b>Capital contribution from the Government</b>                         | <b>5,000,000</b>                    | 5,416,998             | 416,998             |
| <b>Increase in net position</b>   | <b>\$ 5,066,648</b>                 | \$ 13,543,881         | \$ 8,477,233        |
| <b>Other items not shown above:</b>                                     |                                     |                       |                     |
| Principal payments - capital lease                                      | <b>\$ (2,161,958)</b>               | <b>\$ (2,348,387)</b> | <b>\$ (186,429)</b> |

\* The budget was approved in total by the City Council of the Government and further delineated on a line-by-line basis by the Hospital Authority's management.



INDEPENDENT AUDITOR'S  
REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the  
Hospital Authority of the Metropolitan Government  
of Nashville and Davidson County, Tennessee:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Metropolitan Nashville General Hospital (the Hospital), an enterprise fund of the Hospital Authority of the Metropolitan Government of Nashville and Davidson County, Tennessee (Hospital Authority), which is a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses, Item IC-17-1, that we consider to be a material weakness.



To the Board of Trustees of the  
Hospital Authority of the Metropolitan Government  
of Nashville and Davidson County, Tennessee:

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's Response to Findings

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Crosslin, PLLC*

October 31, 2017  
Nashville, Tennessee

**METROPOLITAN NASHVILLE GENERAL HOSPITAL**  
(AN ENTERPRISE FUND OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN  
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2017**

**FINANCIAL STATEMENT FINDINGS**

***Material Weakness:***

**Item IC-17-1**

Although, improvements were made in the accounting processes and internal controls during fiscal 2017 and they appear to be trending in a positive direction, based on our audit of the June 30, 2017 financial statements of Metropolitan Nashville General Hospital (the Hospital), we believe that continuing deficiencies in fiscal 2017, gave rise to the following internal control deficiency which we believe to be a material weakness.

Management did not sufficiently monitor transactions, review activity, or reconcile/analyze accounts on a consistent basis during fiscal 2017 or as of June 30, 2017. Accordingly, material misstatements were created and were not corrected in many of the Hospital's financial statement accounts. These misstatements resulted in numerous adjustments affecting many major asset, liability, revenue and expense accounts, including (but not necessarily limited to):

- Patient accounts receivable
- Allowance for uncollectible patient accounts receivable
- Inventories
- Capital assets
- Capital lease obligation
- Receivables/payables between the Hospital and other Hospital Authority entities
- Accounts payable
- Accrued expenses
- Net patient service revenue
- Various expenses

Without continued improvements in the processes and controls around the Hospital's financial statements, management will be unable to provide accurate and appropriate financial statements for the Hospital on a timely basis.

**Recommendation and Benefit**

We recommend that Hospital Authority management continue to strengthen its internal controls designed to prevent significant errors such as monitoring/reviewing unusual transactions, as well as those designed to detect and correct errors for each significant account, including requiring analysis or reconciliations at period end. In connection with those improvements, we recommend that management make correcting journal entries on a timely basis, in connection with the financial statement close process.

**METROPOLITAN NASHVILLE GENERAL HOSPITAL**  
**(AN ENTERPRISE FUND OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN**  
**GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED JUNE 30, 2017**

**FINANCIAL STATEMENT FINDINGS - (Continued)**

***Material Weakness:***

**Item IC-17-1**

**Management's Response**

Hospital management accepts the finding, although we believe that there have been material improvements in processes over the past year.

To address the issues regarding timely identification and recording of new capital assets and leases, we have tasked our accountants to review all lease or purchased services payments, at least quarterly, and investigate if those payments represent a capital lease, potentially; and also, to review all projects in process with emphasis on IT and construction projects, to determine if a project has been completed and requires capitalization and onset of depreciation.

Finance will begin a quarterly review of all balance sheet assets and liabilities with focus on those that remain static, and those that have increased or decreased substantially over prior year/quarter, and investigate and resolve accordingly. Finally, with regard to the proper valuation of our Accounts Receivable managed through a 3<sup>rd</sup> party vendor, we will work with the vendor to jointly and clearly identify the nature of clearing accounts, changes in net receivables affected thereby, and work to clearly identify and categorize any credit balances and their effects on net Accounts Receivable valuation.

**METROPOLITAN NASHVILLE GENERAL HOSPITAL**  
(AN ENTERPRISE FUND OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN  
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)  
**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**  
**YEAR ENDED JUNE 30, 2017**

**PRIOR YEAR FINANCIAL STATEMENT FINDINGS**

***Material Weakness:***

**Item IC-16-1**

In performing our audit of the June 30, 2016 financial statements of Metropolitan Nashville General Hospital (the Hospital), we noted that the Hospital Authority had experienced several significant changes in its accounting processes (including revenue and billings), personnel and systems during fiscal years 2016 and 2015. We believe that the significant changes mentioned above, combined with a deterioration of internal control during fiscal 2016, gave rise to the following internal control deficiency which we believe to be a material weakness.

Management did not sufficiently monitor transactions, review activity, or reconcile/analyze accounts on a consistent basis during fiscal 2016 or as of June 30, 2016. Accordingly, material misstatements occurred and were not corrected in many of the Hospital's financial statement accounts. Additionally, while management was aware and knowledgeable about certain adjusting entries that would be required, such entries were not made timely. These misstatements resulted in numerous adjustments affecting many major asset, liability, revenue and expense accounts, including (but not necessarily limited to):

- Patient accounts receivable
- Allowance for uncollectible patient accounts receivable
- Inventories
- Capital assets
- Capital lease obligation
- Receivables/payables between the Hospital and other Hospital Authority entities
- Accounts payable
- Accrued expenses
- Net patient service revenue
- Various expenses
- Revenue from the government

Without improvements in the processes and controls around the Hospital's financial statements, management will be unable to provide accurate and appropriate financial statements for the Hospital on a timely basis.

**Recommendation and Benefit**

We recommend that Hospital Authority management strengthen its internal controls designed to prevent significant errors such as monitoring/reviewing unusual transactions, as well as those designed to detect and correct errors for each significant account, including requiring analysis or reconciliations at period end. In connection with those improvements, we recommend that management make correcting journal entries on a timely basis, in connection with the financial statement close process.

**Status**

This finding has reoccurred during the year ended June 30, 2017 and has been repeated as Item IC-17-1.