

METROPOLITAN NASHVILLE GENERAL HOSPITAL
 (AN ENTERPRISE FUND OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
 GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
 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	<u>61,955,378</u>	<u>60,220,459</u>
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	<u>103,143,264</u>	<u>96,690,036</u>
Operating loss	<u>(41,187,886)</u>	<u>(36,469,577)</u>
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	<u>49,314,769</u>	<u>39,273,624</u>
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	<u>13,543,881</u>	<u>7,348,274</u>
Net (deficit) beginning of year	(7,546,763)	(14,895,037)
Net position (deficit), end of year	<u>\$ 5,997,118</u>	<u>\$ (7,546,763)</u>

See accompanying notes to basic financial statements.

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 NOTES TO BASIC FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2017 AND 2016

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:

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

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:

	<i>2017</i>	<i>2016</i>
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 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:

	<i>2017</i>	<i>2016</i>
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	\$ 3,037,653	\$ 2,529,390

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NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

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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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