

The Metropolitan Government of Nashville and Davidson County  
Nashville, Tennessee



Karl F. Dean, Mayor

# Audit Results for FY2015 Financial Statements

## Presentation to the Audit Committee

### December 8, 2015



**CROSSLIN  
& ASSOCIATES**  
BUSINESS SOLUTION PROVIDERS

# Agenda

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- Engagement Team Members
- Responsibilities
- Independence
- Fraud Risk
- Deliverables
- Audit Methodology and Approach
- Single Audit
- Significant Activity and Unusual Items
- Accounting Pronouncements Adopted
- GASB 45 OPEB Funding Status
- Additional Required Communications
- Unrecorded Audit Differences
- Upcoming Accounting Developments
- Appendix: Written Communications

# Engagement Team Members

**Angie Hoke**  
Principal In Charge  
Nashville General Hospital  
Bordeaux Long Term Care

**David Hunt**  
Overall Principal In Charge

**Dell Crosslin**  
Customer Service Principal  
Concurring Reviewer for  
various engagements

**Dell Crosslin**  
Concurring Reviewer

**Ben Nichols**  
Overall Manager

**Caroline Walsh**  
(Technical Advisor)

**Rhonda Sides**  
Healthcare (Billing) Principal

**CAFR**  
David Hunt, Principal  
Ben Nichols, Manager  
Dell Crosslin, Concurring Reviewer  
Dan Miller, Concurring Reviewer

**Sarah Hardee**  
Principal

## Central Government

David Hunt, Principal In Charge  
John Crosslin  
Dan Miller  
Ben Nichols  
Kim Thomason  
Lisa Patterson  
Sarah Hardee  
Dell Crosslin, Concurring Reviewers

## A-133 and State Compliance

Dan Miller, Principal In Charge  
John Crosslin, Concurring Reviewer

## Water and Sewerage

John Crosslin, Principal In Charge  
Kim Thomason  
David Hunt, Concurring Reviewer

## Metro Nashville Public Schools

Sarah Hardee, Principal In Charge  
Angie Hoke, Concurring Reviewer

## MNPS School Activity Funds

Lisa Patterson, Principal In Charge  
Angie Hoke, Concurring Reviewer

**3<sup>rd</sup> Party Reimbursement**  
PYA

**Information Risk Management**  
Shane Clancy, Principal

**Exempt Organization Tax**  
Rodney Brower, Principal



# Responsibilities

## Crosslin & Associates

Expressing opinions about whether the financial statements prepared by management under the oversight of the Audit Committee are fairly presented, in all material respects in conformity with U.S. generally accepted accounting principles

Performing our audits in accordance with professional standards, including *Government Auditing Standards* and the provisions of OMB Circular A-133

Maintaining independence and an attitude of professional skepticism throughout the audits

Reporting to the Audit Committee and management required information, including, but not limited to, significant deficiencies in internal control, instances of noncompliance, and fraud noted during our audits

## Management

Fairly presenting financial statements in conformity with U.S. generally accepted accounting principles

Adopting proper accounting policies

Establishing and maintaining effective internal control over financial reporting and compliance

Preventing and detecting fraud

Disclosing to the Audit Committee and Crosslin & Associates significant deficiencies in internal control and fraud involving those with significant roles in internal control



# Independence

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- The AICPA's Code of Professional Conduct, Rule 101, sets forth guidance for assurance services provided by accountants under U.S. generally accepted auditing standards. *Government Auditing Standards*, Chapter 3, provides additional guidance for financial audits performed under generally accepted government auditing standards.
- Both sources direct that independence is required both in fact and appearance. Crosslin & Associates has established quality control policies and procedures to ensure compliance with professional standards, including those related to independence.
- Crosslin & Associates is independent with respect to Metro Nashville.



# Fraud Risk

The AICPA issued SAS No. 99 to specifically address the risk of material misstatement in the financial statements caused by fraud. We used a four-pronged strategy to address this risk.

## Gather information

- Engagement team brainstorming
- Inquired with management, finance and accounting personnel, and other personnel
- Investigated unusual or unexpected relationships identified through analytical procedures

## Test for management override

- Reviewed current and prior year significant estimates for inappropriate bias
- Evaluated business rationale for significant unusual transactions
- Analyzed propriety of manual adjusting journal entries

## Respond to identified risks

- Designed nature, timing, extent of procedures incorporating elements of unpredictability
- Leveraged experienced personnel in areas of exposure
- Tested items below established scopes

## Evaluate audit evidence

- Disseminated results of audit procedures among audit team
- Remained cognizant of fraud risk factors throughout the audit
- Correlated information gathered and tested in all areas and considered discrepancies, conflicting or unusual evidence and responses, and problematic relationships
- Communicated to appropriate levels of management and Audit Committee



# Deliverables

## Audit Reports

Comprehensive Annual Financial Report

## Notes

Unmodified opinion

General Hospital financial statements  
and management letter

Unmodified opinion

Bordeaux Long Term Care and Knowles Home  
financial statements and management letter

Unmodified opinion

MNPS Internal School Funds financial statements

Unmodified opinion (in process)

Single Audit and related reports

In process

## Other Deliverables

Required communication with the Audit Committee  
regarding audit results

Report issued

Management letter

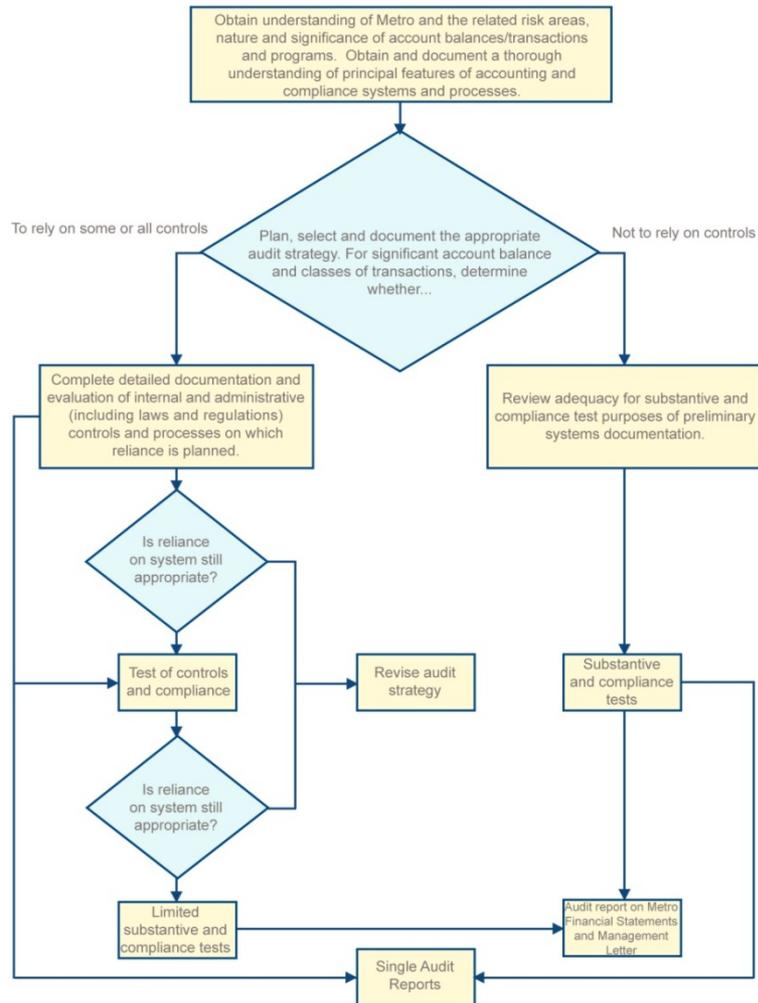
In process

Data Collection Form

In process



# Audit Methodology and Approach



- Audit Planning and Risk Assessment
- Control Evaluation and Testing
- Substantive Testing
- Completion and Reporting

# Audit Methodology and Approach - continued

## Audit Planning and Risk Assessment

Rather than following linear processes, risk assessment was performed cyclically as expectations were made and subsequently validated or refuted by audit evidence.

Our preliminary risk assessment indicated the following primary areas in which we evaluated and performed tests of controls and substantive tests to address risk of material misstatement and noncompliance due to error or fraud.

### Controls Tests

- Cash receipts and revenues
- Property tax billings and receipts
- Purchasing and disbursements
- Employee compensation
- Bank reconciliations
- Journal entries
- IT controls over significant accounting systems
- Compliance

### Substantive Tests

- Treasury / investments
- Long-lived assets
- Long term liabilities including pension/OPEB and Swaption
- Self-insurance accruals
- Property and state tax and other revenues
- Grant receipts, disbursements, and revenues
- Expenditures/expenses and budget process
- Compliance
- Patient accounts receivable and revenues (Hospital Authority)
- Estimated third-party settlements (Hospital Authority)

# Single Audit

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Metro Nashville did not qualify as a low-risk auditee for fiscal 2015. As such, we tested federal major program expenditures to achieve a minimum of 50% coverage of total federal expenditures of \$173 million.

## Major Programs

- Department of Education – SFSF Race-To-The-Top Incentive Grants (ARRA), IDEA Grants
- Department of Agriculture – National School Breakfast/Lunch Programs
- Department of Health and Human Services – Head Start
- Department of Homeland Security – FEMA Flood Recovery
- Department of Homeland Security – Staffing for Adequate Fire and Emergency Response (SAFER)



# Significant Activity and Unusual Items

## Description

Grants

New Debt

Hospital Authority

Capital Projects

## Impact

Testing expenditures/expenses, reimbursement and compliance testing

Verified propriety of sources and uses of funds

Going concern report

Testing and support of capital project expenditures

# Accounting Pronouncements Adopted

## Statement

GASB Statement No. 68

GASB Statement No. 69

## Description

*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* – This Statement improves accounting and financial reporting by state and local governments for pensions. The impact on the financial statements was the recognition of the net pension liability and related deferred outflows and inflows, the restatement of the government-wide beginning net position and the addition of substantial disclosures related to Metro’s pension plans (Notes 2 and 7).

*Government Operations and Disposals of Government Operations* – This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. There was no impact of this pronouncement on the financial statements.



# Accounting Pronouncements Adopted - continued

## Statement

GASB Statement No. 71

## Description

*Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68* – This Statement improves accounting and financial reporting by state and local governments for pensions by addressing an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement (See GASB 68 – above).

# GASB 45 OPEB Funding Status

## **GASB Statement No. 45** – *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions*

- This Statement was adopted by the Government in FY 2008 and requires systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and disclosure information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.
- The unfunded actuarial accrued liability for general government employees is approximately \$1.88 billion, and the estimate of the unfunded actuarial accrued liability for teachers is approximately \$428 million. The annual required contribution for general government employees and teachers is \$176 million and \$36 million, respectively. These estimates were based on a remaining amortization period of 23 years of the unfunded actuarial liability and a 4.5% discount rate assumption.

# Additional Required Communications

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## Accounting Estimates

- The Government's financial statements include several estimates that are significant
- We evaluated the key factors and assumptions used to develop the estimates and believe that the estimates are reasonable in relation to the financial statements for each affected reporting unit

## Unaudited Information in CAFR

- We read all such information and noted nothing materially inconsistent with that included in the Government's basic financial statements

## Other

- No transactions for which there is a lack of authoritative guidance or consensus
- All significant transactions have been recognized in the proper period
- No alternative accounting policies and practices related to material items
- No difficulties encountered in dealing with management in performing and completing our audit
- No disagreements with management regarding financial accounting, reporting, or auditing
- Management provided appropriate representations at the conclusion of our audit
- We are not aware of any communications by management with other independent accountants



# Unrecorded Audit Differences

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## **Governmental Activities**

- None in the current or prior year.

## **Business-type Activities & Department of Water and Sewerage Services**

- None in the current or prior year.

# Upcoming Accounting Developments

## Statement

GASB Statement No. 72 (2016)

GASB Statement No. 73 (2916/2017)

GASB Statement No. 74 (2017)

GASB Statement No. 75 (2018)

GASB Statement No. 76 (2016)

GASB Statement No. 77 (2017)

## Description

*Fair Value Measurement and Application*

*Accounting and Financial Reporting for Pensions and Related Assets not within scope or of GASB 68*

*Financial Reporting for OPEB*

*Accounting and Financial Reporting for OPEB*

*The Hierarchy of GAAP for State and Local Government's*

*Tax Abatement Disclosures*



# Contacts

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## Dell Crosslin

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Customer Service Principal  
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## Ben Nichols

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Audit Manager, Overall Engagement Manager  
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**THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND  
DAVIDSON COUNTY, TENNESSEE**

**Audit Results - Required Communications**

**June 30, 2015**



December 8, 2015

To the Audit Committee  
The Metropolitan Government of Nashville and Davidson County  
Nashville, Tennessee

Ladies and Gentlemen:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Metropolitan Government of Nashville and Davidson County, Tennessee (the "Government") as of and for the year ended June 30, 2015, which collectively comprise the Government's basic financial statements. We have also audited the financial statements of the Sports Authority Fund and the Industrial Development Board Fund, which are discretely presented component units of the Government, and the financial statements of each of the Government's nonmajor governmental, nonmajor enterprise, internal service and fiduciary funds, and have issued our report thereon dated October 31, 2015. We have also audited and reported on separately the financial statements of the following discretely presented component units: the General Hospital and Bordeaux Long Term Care and Knowles Home Funds of the Hospital Authority, and the Metropolitan Transit Authority. We did not audit the financial statements of the following discretely presented component units: the Nashville District Management Corporation, the Gulch Business Improvement District, Inc., the Metropolitan Development and Housing Agency, the Electric Power Board, the Metropolitan Nashville Airport Authority, the Emergency Communications District and the Convention Center Authority. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our report to you dated July 28, 2015. Professional standards also require that we communicate to you the following information related to our audit.



## **OUR RESPONSIBILITY UNDER PROFESSIONAL STANDARDS**

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit of the basic financial statements, we considered internal control over financial reporting (“internal control”) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of the Government’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Government’s internal control.

## **CONFIRMATION OF AUDIT INDEPENDENCE**

Our professional standards required that we communicate at least annually with you regarding all relationships between Crosslin & Associates, PLLC, and the Government that, in our professional judgment may reasonably be thought to bear on our independence.

We are not aware of any relationships between our firm and the Government that in our professional judgment may reasonably be thought to bear on our independence that have occurred during the period from July 1, 2014 through the date of this letter.

We hereby confirm that as of December 8, 2015, we are independent accountants with respect to the Government under all relevant professional and regulatory standards.

## **SIGNIFICANT AUDIT ITEMS**

### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Government are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014, except as follows:



- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* – This Statement improves accounting and financial reporting by state and local governments for pensions. The impact on the financial statements was the recognition of the net pension liability and related deferred outflows and inflows, the restatement of the government-wide beginning net position and the addition of substantial disclosures related to Metro’s pension plans (Notes 2 and 7).
- GASB Statement No. 69, *Government Operations and Disposals of Government Operations* – This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. There was no impact of this pronouncement on the financial statements.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68* – This Statement improves accounting and financial reporting by state and local governments for pensions by addressing an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement (See GASB 68 – above).

We noted no transactions entered into by the Government during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

There were no alternative accounting policies and practices related to material items discussed with management during fiscal year 2015 and through the date of our report.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Government’s financial statements were:

- Management’s estimates of the allowance for uncollectible taxes and other receivables which are based on an analysis of historical trends.
- Management’s valuation of self-insurance liabilities such as self-insurance claims payable and reserves which is based on an analysis of historical trends and the results of actuarial calculations.
- Management’s estimate of the pension and post-employment benefits other than pensions (“OPEB”) liability which is based on assumptions as to the occurrence of future events affecting costs such as: mortality, withdrawal, disablement and retirement; changes in compensation and government-provided benefits; risk of healthcare costs; rates of investment earnings and asset appreciation.



- Management's estimate of the valuation of non-readily marketable investments held which is based on an analysis of the fair market valuations and other information provided by investment managers.
- Management's estimate of flood-related disaster assistance grant recoveries, which is based on analysis and assessment of Project Worksheets.
- Management's estimates of the interest rate swap liability and related deferred outflows which are based on information provided by the counterparty using valuation models and assumptions and available market data.
- Management's estimates of the estimated useful lives of capital assets.
- Management's estimates of the allowances for contractual adjustments and bad debts on patients' accounts receivable which are based upon existing payment rates, historical results and analysis of the effect of changes in contracts, pricing and regulations.
- Management's estimate of the pollution remediation liability which is based upon discussions held with the appropriate representatives of the departments of the Government that have oversight responsibility for the majority of the Government's land and buildings and have the most risk of pollution issues. Additionally, discussions were held with other departments that would likely have knowledge regarding any significant events of pollution.

We evaluated the key factors and assumptions used to develop these estimates in determining that the estimates are reasonable in relation to the financial statements.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### ***Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no uncorrected misstatements of the financial statements.

#### ***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.



### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 31, 2015 (Attached).

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Government’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Fraud and Illegal Acts*

We did not identify any fraudulent or illegal acts during the course of our audit.

## **OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS**

Our responsibility for other information in documents containing the Government’s basic financial statements and our auditors’ report thereon does not extend beyond the financial information identified in our auditors’ report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included with the Government’s basic financial statements in the 2015 Comprehensive Annual Financial Report and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of presentation, appearing in the basic financial statements.

\* \* \* \* \*

This report is intended solely for the information and use of the Audit Committee, management, and others within the Government and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Crosslin & Associates, PLLC*

Crosslin & Associates, PLLC

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY



MEGAN BARRY  
MAYOR

DIRECTOR OF FINANCE  
METROPOLITAN COURTHOUSE  
ONE PUBLIC SQUARE, SUITE 406  
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October 31, 2015

Crosslin & Associates, PLLC  
3803 Bedford Avenue, Suite 1100  
Nashville, Tennessee 37215

This representation letter is provided in connection with your audit of the financial statements of The Metropolitan Government of Nashville and Davidson County, Tennessee (the "Government"), which comprise the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, each non-major governmental, non-major enterprise, internal service, and fiduciary fund, as well as the Sports Authority, Industrial Development Board, and General Hospital and Bordeaux Long Term Care funds of the Hospital Authority (discretely presented component units of the Government) as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We acknowledge that Crosslin & Associates, P.C. ("Crosslin") did not audit the financial statements of the following discretely presented component units: the Nashville District Management Corporation, the Gulch Business Improvement District, Inc., the Metropolitan Development and Housing Agency, the Electric Power Board, the Metropolitan Nashville Airport Authority, the Emergency Communications District, and the Convention Center Authority. Those financial statements were audited by other auditors whose reports thereon have been furnished to Crosslin. We acknowledge that Crosslin's audit opinion, insofar as it relates to the amounts included for the above entities, is based on the reports of the other auditors.

We confirm, to the best of our knowledge and belief, as of October 31, 2015, the following representations made to you during your audit.

## Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter, including our responsibility for the preparation and fair presentation of the financial statements and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates are reasonable. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- 7) We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. Except as disclosed in Note 16 to the financial statements, no events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
- 8) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
- 9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 10) Guarantees, whether written or oral, under which the Government is contingently liable, if any, have been properly recorded or disclosed.

- 11) Agreements to purchase assets previously sold, including sales with recourse, if any, have been properly recorded or disclosed.
- 12) Changes in accounting principle affecting consistency have been properly recorded and/or disclosed.

### **Information Provided**

- 13) We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d) Minutes of the meetings of the Metropolitan Council and respective committees, the Sports Authority Board of Directors, and the Industrial Development Board or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 14) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 15) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 16) Except as disclosed to the State of Tennessee Comptroller's Office and to you, we have no knowledge of any fraud or suspected fraud that affects the Government and involves:
  - a) Management,
  - b) Employees who have significant roles in internal control, or
  - c) Others where the fraud could have a material effect on the financial statements.
- 17) Except as disclosed to the State of Tennessee Comptroller's Office and to you, we have no knowledge of any allegations of fraud or suspected fraud affecting the Government's financial statements communicated by employees, former employees, regulators, or others.
- 18) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

- 19) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 20) We have disclosed to you the identity of the Government's related parties and all the related party relationships and transactions of which we are aware.

**Government—specific**

- 21) We have made available to you all financial records and related data.
- 22) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 23) We have a process to track the status of audit findings and recommendations.
- 24) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 25) The Government has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 26) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- 27) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 28) We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under section 103 of the Internal Revenue Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences, subsequent to the issuance of such opinions, that would jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.
- 29) There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles, except as communicated to you and presented in the financial statements.
- 30) There are no other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.

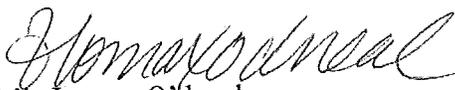
- 31) The Government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the financial statements.
- 32) The Government has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 33) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- 34) The financial statements include all component units and properly disclose all other related organizations.
- 35) The financial statements properly classify all funds and activities.
- 36) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 37) Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 38) Investments, derivative instruments, and land and other real estate held are properly valued.
- 39) Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the statement of net position/balance sheet date and have been appropriately reduced to their estimated net realizable value. Provisions for uncollectible receivables have been properly identified and recorded.
- 40) The Government has identified and properly accounted for all non-exchange transactions.
- 41) The Government has properly recognized the sale of sales tax receivables in accordance with GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.
- 42) We believe that all material expenditures that have been deferred to future periods will be recovered.
- 43) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 44) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

- 45) Interfund, internal, and intra-government activity and balances have been appropriately classified and reported.
- 46) Interfund balances will be repaid during the subsequent fiscal year.
- 47) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 48) There are no financial instruments with off-balance-sheet risk or financial instruments with concentrations of credit risk.
- 49) The Government is responsible for determining the fair value of certain investments as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The amounts reported represent the Government's best estimate of fair value of investments required to be reported under the Statement. The Government also has disclosed the methods and significant assumptions used to estimate the fair value of its investments, and the nature of investments reported at amortized cost.
- 50) The Government has no:
- a) Commitments for the purchase or sale of services or assets at prices involving material probable loss.
  - b) Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage value.
  - c) Losses to be sustained as a result of other-than-temporary declines in the fair value of investments.
- 51) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 52) Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility. Impairment loss and any insurance recoveries have been properly recorded.
- 53) The government meets the GASB-established requirements for accounting for eligible infrastructure assets using the modified approach.
- 54) Provision has been made in the financial statements for the Government's pollution remediation obligations, if any. We believe that such estimate has been determined in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and is reasonable based on available information.

- 55) The Government does not have any liabilities that are subject to presentation and disclosure under GASB Statement No. 47, *Accounting for Termination Benefits*.
- 56) We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- 57) We have appropriately disclosed the Government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 58) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI. Management's Discussion and Analysis is based on facts, decisions, or conditions currently known to management and does not contain forecasts or other prospective information.
- 59) With respect to the schedules on pages C-9, C-10 and C-11, and on pages G-2 through G-28 (supplementary information):
- a) We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
  - b) If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
- 60) We have evaluated the Government's ability to continue as a going concern and have included appropriate disclosures, as necessary, in the financial statements.
- 61) Note 13E to the financial statements discloses all of the matters of which we are aware that are relevant to the Hospital Authority's ability to continue as a going concern, including significant conditions and events, and management's plans.

62) In connection with any electronic presentation of the financial statements and your audit report thereon on our website, we acknowledge that:

- a) We are responsible for the preparation, presentation, and content of the financial statements in the electronic format;
- b) If your audit report is presented on our website, the full financial statements upon which you reported and to which you appended your signed report will be presented;
- c) We will clearly indicate in the electronic presentation on our website the financial information that is subject to your audit report. We will clearly differentiate any information that may also be presented to us on or in connection with our website that was contained in the published version of the financial statements and other supplementary information, but which is not part of the audited financial statements or other financial information covered by your audit report;
- d) We have assessed the security over financial statement information and the audit report presented on our website, and are satisfied that procedures in place are adequate to ensure the integrity of the information provided. We understand the risk of potential misrepresentation inherent in publishing financial information on our website through internal failure or external manipulation.

  
Talia Lomax-O'dneal  
Director of Finance

  
Kim McDoniel  
Assistant Finance Director