

WAYNE GENERAL HOSPITAL
Waynesboro, Mississippi
(A Component Unit of Wayne County)

FINANCIAL STATEMENTS

September 30, 2020 and 2019



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Waynesboro, Mississippi**

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September 30, 2020 and 2019**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Wayne General Hospital
Waynesboro, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of Wayne General Hospital (the "Hospital"), a component unit of Wayne County, Mississippi, as of and for the year ended September 30, 2020, 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

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit 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 auditors' 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.

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 Hospital as of September 30, 2020, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

The financial statements of Wayne General Hospital as of and for the year ended September 30, 2019, were audited by other auditors who report dated January 13, 2020, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4-10 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 audit 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The schedule of surety bonds for officials and employees is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of surety bonds for officials and employees is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of surety bonds for officials and employees is fairly stated in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2021, 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 solely 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 the effectiveness of the Hospital's 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.

Caru, Riggs & Ingram, L.L.C.

Laurel, Mississippi
January 7, 2021

Wayne General Hospital Management's Discussion and Analysis

This section of Wayne General Hospital's (the "Hospital") annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal years that ended on September 30, 2020 and 2019. Please read it in conjunction with the financial statements in this report.

FINANCIAL HIGHLIGHTS

Fiscal Year Ended September 30, 2020

- The Hospital's total net position decreased approximately \$311,000 or 1.83% from the prior year.
- At the end of the 2020 fiscal year, the assets of the Hospital exceeded liabilities by \$16.7 million. Of this amount, \$8.1 million (unrestricted net position) may be used to meet ongoing obligations to the Hospital's employees, patients, and creditors, and \$8.6 million is the net investment in capital assets.
- Net patient service revenue decreased approximately \$2.9 million or 10.16% from the prior year. This decrease is due to increases in contractual adjustments and the provision for bad debts. Also, the Hospital experienced a decrease in inpatient and outpatient volumes which were partially offset by changes in reimbursement rates. During this same period, operating expenses increased approximately \$1.15 million or 3.9% from the prior year. This increase is largely due to increases in salaries and benefits, as well as supplies due to COVID. These changes will be further discussed in the Operating and Financial Performance section of this analysis.

Fiscal Year Ended September 30, 2019

- The Hospital's total net position decreased approximately \$141,000 or 0.8% from the prior year.
- At the end of the 2019 fiscal year, the assets of the Hospital exceeded liabilities by \$17 million. Of this amount, \$8.3 million (unrestricted net position) may be used to meet ongoing obligations to the Hospital's employees, patients, and creditors, and \$8.8 million is the net investment in capital assets.
- Net patient service revenue decreased approximately \$37,000 or 0.1% from the prior year. The Hospital experienced a decrease in inpatient and outpatient volumes which were offset by increases in reimbursement rates. During this same period, operating expenses increased approximately \$781,000 or 2.7% from the prior year. This increase is largely due to salary and benefit increases. These changes will be further discussed in the Operating and Financial Performance section of this analysis.

Wayne General Hospital Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of three statements – the statements of net position, the statements of revenues, expenses, and changes in net position, and the statements of cash flows. The financial statements report the financial position of the Hospital, the results of its operations, and its cash flows. The financial statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about the Hospital's activities.

The statements of net position include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities) for both the current year and the prior year. It also provides the basis for evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statements of revenue, expenses and changes in net position. These statements measure the performance of the Hospital's operations over the past year and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources.

The statements of cash flows provide information about the Hospital's cash from operating, noncapital, investing, and financing activities. The statements of cash flows outline where the cash comes from, what the cash is used for, and the changes in the cash balance during the reporting period.

The annual report also includes notes to financial statements that are essential to gain a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

FINANCIAL ANALYSIS OF THE HOSPITAL

The statements of net position and the statements of revenues, expenses and changes in net position report information about the Hospital's activities. Increases or improvements, as well as decreases or declines in the net position, are one indicator of the financial state of the Hospital. Other nonfinancial factors that should also be considered include changes in economic conditions, population growth (including uninsured and working poor), and new or changed government legislation.

Wayne General Hospital Management's Discussion and Analysis

A summary of the Hospital's condensed statements of net position are presented in the following table:

Condensed Statements of Net Position

	2020	2019	2018
Assets			
Current and other assets	\$ 29,359,102	\$ 11,939,370	\$ 11,985,287
Capital assets, net	9,013,242	9,065,467	9,192,393
Total assets	\$ 38,372,344	\$ 21,004,837	\$ 21,177,680
Liabilities			
Current liabilities	\$ 21,437,792	\$ 3,751,980	\$ 3,709,288
Long-term liabilities	218,282	225,550	299,167
Total liabilities	\$ 21,656,074	\$ 3,977,530	\$ 4,008,455
Net position			
Invested in capital assets	\$ 8,631,202	\$ 8,766,300	\$ 9,055,360
Unrestricted	8,085,068	8,261,007	8,113,865
Total net position	\$ 16,716,270	\$ 17,027,307	\$ 17,169,225

Fiscal Year Ended September 30, 2020

Current and other assets and current liabilities both increased approximately \$17.5 million due to cash on hand for unearned CARES Act funds reported in unearned revenue in the amount of \$14.4 million and Paycheck Protection Program loan funds in the amount of \$3.1 million.

Fiscal Year Ended September 30, 2019

Current and other assets decreased 0.4% primarily due to an increase in cash offset by a decrease in accounts receivable and other noncurrent assets.

Net capital assets decreased 1.4% due to current year depreciation expense exceeding purchases.

Current liabilities increased 1.2% from the prior year primarily related to the increase of accounts payable and accrued payroll.

Wayne General Hospital Management's Discussion and Analysis

A summary of the Hospital's condensed statements of revenues, expenses, and changes in net position are presented in the following table:

	2020	2019	2018
Condensed Statements of Revenues, Expenses, and Changes in Net Position			
Operating revenues			
Net patient service revenue	\$ 25,614,795	\$ 28,510,319	\$ 28,547,406
Other operating revenue	1,813,080	531,050	656,133
Total operating revenues	27,427,875	29,041,369	29,203,539
Operating expenses			
Salaries and benefits	20,901,962	19,951,297	18,796,954
Depreciation and amortization	953,394	736,694	1,112,719
Other	8,613,102	8,634,457	8,631,930
Total operating expenses	30,468,458	29,322,448	28,541,603
Operating income (loss)	(3,040,583)	(281,079)	661,936
Nonoperating revenues	2,729,546	139,161	71,703
Change in net position	\$ (311,037)	\$ (141,918)	\$ 733,639

Fiscal Year Ended September 30, 2020

The Hospital derived 93.4% of its total operating revenues from net patient service revenues. Such revenues include revenues from the Medicare and Medicaid programs, patients, or their third-party carriers who pay for care in the Hospital's facilities.

Fiscal Year Ended September 30, 2019

The Hospital derived 98.2% of its total operating revenues from net patient service revenues. Such revenues include revenues from the Medicare and Medicaid programs, patients, or their third-party carriers who pay for care in the Hospital's facilities.

The following table represents the relative percentage of gross charges billed for patient services by payor for the fiscal years ended September 30, 2020, 2019 and 2018:

	2020	2019	2018
Medicare	49 %	46 %	48 %
Medicaid	19	21	21
Other	32	33	31
Total gross charges	100 %	100 %	100 %

Wayne General Hospital Management's Discussion and Analysis

OPERATING AND FINANCIAL PERFORMANCE

The following summarizes statistical information related to the Hospital's operations. Prior year amounts have been updated to be consistent with current year presentation.

	2020	2019	2018
Actual number of acute patient days (adult) **	5,859	5,241	6,141
Percentage of occupancy (adult)	50.2 %	44.9 %	52.6 %
Newborn infant patient days	448	378	432
Pediatric patient days	119	181	142
Swingbed patient days	2,125	3,009	3,272
Percentage of occupancy (swingbed)	34.5 %	55.0 %	59.8 %
Discharges including deaths (adult)	1,071	1,571	1,742
Average length of stay (adult) in days	5.8	5.3	5.5
Average daily census (adult)	22	23	27
Medicare days	5,374	5,665	6,682
Medicaid days	1,662	1,766	2,035
Surgery cases	575	717	866
Home health visits	7,248	7,919	7,924
Emergency room visits	11,170	12,483	13,717

** Acute patient days includes inpatient medical, obstetrics, ICU, and surgery

The following summarizes changes in the Hospital's statements of revenues, expenses and changes in net position between 2020 and 2019:

Fiscal Year Ended September 30, 2020

- Net patient service revenues decreased as stated in the financial highlights. Gross patient service revenue decreased approximately \$173,000, contractual adjustments increased approximately \$612,000, and the bad debt provision increased approximately \$2.1 million due to management's review of collections over the last year.
- Operating expenses increased as a result of an average wage increase. Salaries, wages and employee benefits increased approximately \$951,000 or 4.8% from the prior year.
- Nonoperating revenues increased \$2.7 million due to the Hospital recognizing approximately \$2.4 million in CARES Act funds. Interest income also increased due to the increase in cash on hand.

Fiscal Year Ended September 30, 2019

- Net patient service revenues decreased as stated in the financial highlights. Gross patient service revenue increased to \$61,657,109 from \$60,768,158 in 2018.

Wayne General Hospital Management's Discussion and Analysis

- Operating expenses increased as a result of an average wage increase. Salaries, wages and employee benefits increased \$1,136,964 or 6% from 2018.
- Interest income increased \$50,138 from prior year due to increases in investment returns.

CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating income/losses and changes in net position discussed earlier.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets consisted of the following at September 30, 2020 and 2019:

	2020	2019	2018
Land and land improvements	\$ 476,686	\$ 476,686	\$ 476,686
Construction in progress	-	247,435	-
Buildings and improvements	18,964,116	16,793,068	16,690,558
Equipment	15,875,845	17,070,313	16,810,490
Total capital assets	35,316,647	34,587,502	33,977,734
Less accumulated depreciation	(26,303,405)	(25,522,035)	(24,785,341)
Capital assets, net	\$ 9,013,242	\$ 9,065,467	\$ 9,192,393

Fiscal Year Ended September 30, 2020

Net capital assets decreased approximately \$52,000 primarily due to current year depreciation expense exceeding purchases. Current year capital additions were \$903,000 and depreciation expense was \$953,000.

Current year debt activity included new debt that was issued in the amount of \$265,956 to finance the purchase of a mammography machine, less normal debt service payments of \$183,084.

Fiscal Year Ended September 30, 2019

Net capital assets decreased approximately \$127,000 primarily due to current year depreciation expense exceeding purchases. Current year capital additions were \$609,768 and depreciation expense was \$736,694.

Debt decreased by normal debt service payments in the amount of \$70,692 during the year.

Wayne General Hospital Management's Discussion and Analysis

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

While the annual budget of the Hospital is not presented within these financial statements, the Hospital's Board and management considered many factors when setting the fiscal year 2021 budget. While the financial outlook for the Hospital is stable, of primary importance in setting the 2021 budget is the status of the economy and the healthcare environment, which takes into account market forces and environmental factors such as:

- Medicare reimbursement changes,
- Increased number of uninsured and working poor,
- Ongoing competition for services,
- Workforce shortages primarily in nursing and other clinically skilled positions,
- Cost of supplies, including pharmaceuticals, and
- Impact of Healthcare Reform as it relates to reimbursement and employee health insurance coverage.

The Hospital, as have all healthcare facilities across the United States, has been and continues to be impacted by the wide spread of the Coronavirus Disease 2019 (COVID-19). Since the Public Health Emergency declaration by the President of the United States on March 13, 2020, the Hospital has experienced and continues to experience a significant reduction in services provided in the hospital, physician clinics, swing bed and home care services. Elective surgeries were suspended at times and levels have not reached those of the prior year. Healthcare professionals have raised concerns that patients have forgone important care and chronic disease management which can jeopardize their health, and as a result hospitals are anticipating continued reductions in revenues for these patients until COVID-19 subsides.

The Hospital received under the CARES ACT \$12.2 million which has reduced the negative financial impact of COVID-19. In addition, the Hospital received a Small Business Association Paycheck Protection Program loan of \$3.1 mil which has been submitted for repayment forgiveness and Accelerated Medicare Payments of \$4.6 million which is scheduled to be repaid in 2021.

For more details on COVID-19, see the notes to the financial statements.

CONTACTING THE HOSPITAL FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Hospital's finances. If you have any questions about this report or need additional financial information, please contact the Administrator, Wayne General Hospital, P.O. Box 1249, Waynesboro, Mississippi 39367.

Wayne General Hospital
Statements of Net Position

<i>September 30,</i>	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 24,873,513	\$ 6,357,966
Patient accounts receivable, net of allowance doubtful accounts of \$9,210,100 and \$8,979,035 in 2020 and 2019, respectively	3,431,822	4,615,686
Inventories	521,463	359,265
Prepaid expenses	252,846	300,966
Estimated third-party settlements	16,420	-
Other current assets	90,838	155,732
Total current assets	29,186,902	11,789,615
Capital assets		
Land	476,686	476,686
Construction in progress	-	202,825
Depreciable capital assets, net	8,536,556	8,385,956
Total capital assets, net	9,013,242	9,065,467
Other assets	172,200	149,755
Total assets	38,372,344	21,004,837
Liabilities and Net Position		
Current liabilities		
Current maturities of long-term debt	163,758	73,617
Accounts payable	630,620	594,416
Accrued payroll and withholdings	1,099,623	1,272,035
Accrued compensated absences	1,910,323	1,644,564
Accrued health insurance claims payable	197,572	157,572
Unearned revenue	14,355,156	-
Short-term debt - Paycheck Protection Program	3,080,740	-
Estimated third-party settlements	-	9,776
Total current liabilities	21,437,792	3,751,980
Long-term liabilities		
Notes payable, net of current maturities	218,282	225,550
Total liabilities	21,656,074	3,977,530
Net position		
Net investment in capital assets	8,631,202	8,766,300
Unrestricted	8,085,068	8,261,007
Total net position	\$ 16,716,270	\$ 17,027,307

The accompanying notes are an integral part of these financial statements.

Wayne General Hospital
Statements of Revenues, Expenses and Changes in Net Position

<i>For the years ended September 30,</i>	2020	2019
Operating Revenues		
Patient service revenues, net of contractual allowances	\$ 29,549,843	\$ 30,335,320
Provision for bad debts	(3,935,048)	(1,825,001)
Net patient service revenue	25,614,795	28,510,319
Other operating revenues	1,813,080	531,050
Total operating revenues	27,427,875	29,041,369
Operating Expenses		
Salaries and wages	17,762,946	17,224,737
Employee benefits and payroll taxes	3,139,016	2,726,560
Physician and professional fees	1,604,365	1,519,682
Supplies and other operating expense	5,823,214	5,884,783
Maintenance and utilities	1,185,523	1,229,992
Depreciation and amortization	953,394	736,694
Total operating expenses	30,468,458	29,322,448
Operating loss	(3,040,583)	(281,079)
Nonoperating Revenues (Expenses)		
CARES Act funds	2,446,459	-
Interest income	285,600	120,213
Interest expense	(15,326)	(14,122)
Loss on disposal of assets	(1,280)	-
Noncapital grants and contributions	14,093	33,070
Total nonoperating revenue (expenses)	2,729,546	139,161
Change in net position	(311,037)	(141,918)
Net Position - beginning of year	17,027,307	17,169,225
Net Position - end of year	\$ 16,716,270	\$ 17,027,307

The accompanying notes are an integral part of these financial statements.

Wayne General Hospital Statements of Cash Flows

<i>For the years ended September 30,</i>	2020	2019
Operating Activities		
Receipts from and on behalf of patients	\$ 26,772,463	\$ 29,285,865
Payments to suppliers and contractors	(8,690,976)	(8,623,451)
Payments to and on behalf of employees	(20,726,166)	(19,909,295)
Other receipts (payments), net	1,813,080	660,167
Net cash provided (used) by operating activities	(831,599)	1,413,286
Noncapital Financing Activities		
Receipt of noncapital grants and contributions	14,093	33,070
Proceeds from PPP loan	3,080,740	-
Receipt of CARES Act funds	16,801,615	-
Net cash provided by noncapital financing activities	19,896,448	33,070
Capital and Related Financing Activities		
Purchase of capital assets	(636,493)	(609,768)
Interest paid on long-term debt	(15,326)	-
Principal paid on long-term debt	(183,083)	(70,692)
Net cash (used) by capital and related financing activities	(834,902)	(680,460)
Investing Activities		
Interest received	285,600	106,091
Net cash provided by investing activities	285,600	106,091
Net increase in cash and cash equivalents	18,515,547	871,987
Cash and cash equivalents - beginning of year	6,357,966	5,485,979
Cash and cash equivalents - end of year	\$ 24,873,513	\$ 6,357,966

The accompanying notes are an integral part of these financial statements.

Wayne General Hospital
Statements of Cash Flows (Continued)

<i>For the years ended September 30,</i>	2020	2019
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (3,040,583)	\$ (281,079)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	953,394	736,694
Provision for bad debts	3,935,048	1,825,001
(Increase) decrease in assets:		
Patient accounts receivable	(2,751,184)	(1,049,455)
Inventories	(162,198)	1,019
Prepaid and other current assets	113,014	12,221
Other assets	(22,445)	129,117
Estimated third-party settlements	(16,420)	-
Increase (decrease) in liabilities:		
Accounts payable	36,204	15,145
Accrued payroll and withholdings	(172,412)	18,501
Accrued compensated absences	265,759	6,122
Accrued health claims	40,000	-
Estimated third-party settlements	(9,776)	-
Net cash provided (used) by operating activities	\$ (831,599)	\$ 1,413,286
Noncash Investing, Capital, and Financing Activities:		
Purchase of equipment with notes payable	\$ 265,956	\$ -

The accompanying notes are an integral part of these financial statements.

Wayne General Hospital Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Wayne General Hospital (the "Hospital") is an acute care hospital established by Wayne County (the "County") as a special-purpose government entity under the laws of the State of Mississippi. The Hospital is owned by the County and is governed by a Board of Trustees appointed by the County Board of Supervisors. Because of the relationship between the Hospital and the County, the Hospital has been defined as a component unit of the County.

The Hospital provides inpatient, outpatient and emergency care services primarily for residents of the County and the surrounding area. Admitting physicians are primarily practitioners in the same area. The Hospital is currently licensed to operate 49 inpatient beds.

Blended Component Unit

Wayne General Hospital Foundation, Inc. (the "Foundation") is a nonstock, nonprofit corporation exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The members of the Foundation Board consist principally of persons selected from the trustees, executive staff, and medical staff of the Hospital, as well as local civic leaders and professionals. The Hospital exerts control over the Foundation and there is a financial benefit relationship with this entity. Therefore, the Foundation is reported as a blended component unit in the Hospital's financial statements as of September 30, 2020 and 2019.

The Foundation is organized and operated exclusively for charitable scientific and educational purposes for the benefit of the Hospital. The primary sources of financial support for the Foundation are gifts, grants and contributions from the general public, corporations, and charitable organizations.

All significant intercompany transactions between the Foundation and the Hospital have been eliminated.

Budgetary Information

Budgets are prepared on a basis consistent with accounting principles generally accepted in the United States of America with concurrence by the Hospital's Board of Trustees on an annual basis. The Hospital, however, is not required by statute to adopt a legally binding budget. Accordingly, budgetary information is not a required part of these financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), as promulgated by the Governmental Accounting Standards Board (GASB). Revenues, expenses, gains, losses, assets, liabilities, and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants) are recognized when all applicable eligibility requirements are met.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Estimates that are particularly susceptible to significant change in the near term are related to the determination of the allowances for doubtful accounts and contractual adjustments and estimated third-party payor settlements. 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.

Assets, Liabilities, and Net Position

Cash and Cash Equivalents

Cash and cash equivalents include cash and all highly liquid investments with an original maturity of three months or less. The Hospital's cash and cash equivalents consist of demand deposits and money market funds. Interest income is reported as nonoperating revenues.

Cash and cash equivalents include funds held on behalf of employees who participate in the Hospital's Christmas Club Program. Funds that were not paid out at September 30, 2020 and 2019 totaled \$377,699 and \$389,074, respectively. The Hospital has recorded an accrual for these amounts, which are included in accrued payroll and withholdings on the accompanying statements of net position.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs, other than quoted prices, that are:
 - observable; or
 - can be corroborated by observable market data.

If the asset or liability has a specified (contractual term), the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs are unobservable and significant to the fair value measurement.

The Hospital did not have any significant assets or liabilities measured at fair value on a recurring basis requiring disclosure of fair value inputs at September 30, 2020 or 2019.

Patient Accounts Receivable, Net

Patient receivables are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts and third-party contractual discounts. The allowance for doubtful accounts is based on historical losses and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for bad debts, and decreased by write-offs of accounts determined by management to be uncollectible. The allowances for third-party contractual discounts are based on the estimated differences between the Hospital's established rates and the actual amounts to be received under each contract. Changes in estimates by material amounts are reasonably possible in the near term.

Inventories

Inventories, which consist primarily of medical supplies and drugs, are stated at the lower of cost or market, based on the first-in, first-out method.

Wayne General Hospital Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid Expenses

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Capital assets are defined as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Land and construction in progress are not depreciated. For other capital assets, depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Hospital:

Land improvements	5 - 20 years
Buildings and improvements	5 - 40 years
Fixed equipment	5 - 28 years

Expenditures that materially increase values, change capacities, or extend useful lives of the respective assets are capitalized. Routine maintenance and repairs are charged to expense when incurred.

Impairment of Long-Lived Assets

The Hospital evaluates, on an ongoing basis, the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The assessment of the recoverability of assets will be impacted if estimated future operating cash flows are not achieved. Based on management's evaluations, no long-lived asset impairments were recognized during the years ended September 30, 2020 and 2019.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Assets

The Hospital has entered into various agreements with physicians, specifically to benefit the Hospital's community service area. These agreements include income guarantees and other advances, all of which are generally conditioned upon a service commitment to the community. Advances under these agreements are forgiven upon fulfillment of the professional's contractual service commitment, but are due in full if such commitment is not fulfilled. Advances under these arrangements are amortized to expense using the straight-line method over the related commitment period. Amounts expected to be amortized in the ensuing fiscal year are classified as an other current asset in the accompanying statements of net position.

Compensated Absences

The Hospital's policy allows most employees to accumulate benefits that may be realized as paid time off or as a cash payment upon termination of employment. The expense and the related liability are recognized as benefits as earned whether the employee is expected to realize the benefit as paid time off or in cash upon termination of employment. Compensated absences are computed using the pay rates in effect at year-end, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. The Hospital's estimated accrual for compensated absences is recorded as a current liability in the statement of net position.

Net Position

Net position of the Hospital is classified in three components, as follows:

Net investment in capital assets – consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.

Restricted – Represents resources that are externally restricted by external parties or by law through constitutional provision or enabling legislation.

Unrestricted – Represents the remaining net position that does not meet the definition of net investment in capital assets or restricted net position described above.

As a general practice, when both restricted and unrestricted resources are available for use, it is the Hospital's policy to use restricted resources first, then unrestricted resources as they are needed.

Wayne General Hospital Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenue and Expenses

The Hospital's statements of revenue, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenue, including interest income and grants and contributions received for purposes other than capital asset acquisitions, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered in the recognition and accrual of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The primary third-party programs include Medicare and Medicaid, which account for a significant amount of the Hospital's revenue. The laws and regulations under which Medicare and Medicaid programs operate are complex and subject to interpretation and frequent changes. As part of operating under these programs, there is a possibility that government authorities may review the Hospital's compliance with these laws and regulations. Such reviews may result in adjustments to program reimbursement previously received and subject the Hospital to fines and penalties. Management believes it has complied with the requirements of these programs.

Charity Care

The Hospital provides care without charge, or at a reduced charge, to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify pursuant to this policy, these charges are not reported as revenue. The amount of charges foregone for services and supplies furnished under the Hospital's charity care policy was approximately \$895,000 and \$1,057,000 for the years ended September 30, 2020 and 2019, respectively, and estimated costs and expenses incurred to provide charity care totaled approximately \$429,000 and \$530,000, respectively. The estimated costs and expenses incurred to provide charity care were determined by applying the Hospital's cost to charge ratio from its latest filed Medicare cost report to its charges foregone for charity care, at established rates.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Contributions

From time to time, the Hospital receives grants from other governmental entities as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted either for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Current Healthcare Environment

The Hospital monitors economic conditions closely, both with respect to potential impacts on the healthcare industry and from a more general business perspective. Management recognizes that economic conditions may continue to impact the Hospital in a number of ways, including, but not limited to, uncertainties associated with the United States and state political landscape and rising uninsured patient volumes and corresponding increases in uncompensated care.

Additionally, the general healthcare industry environment is increasingly uncertain, especially with respect to the ongoing impacts of the federal healthcare reform legislation. Potential impacts of ongoing healthcare industry transformation include, but are not limited to:

- Significant capital investment in healthcare information technology
- Continuing volatility in state and federal government reimbursement programs
- Effective management of multiple major regulatory mandates, including the previously mentioned audit activity
- Significant potential business model changes throughout the healthcare system, including within the healthcare commercial payor industry

The business of healthcare in the current economic, legislative, and regulatory environment is volatile. Any of the above factors, along with others both currently in existence and which may or may not arise in the future, could have a material adverse impact on the Hospital's financial position and operating results.

**Wayne General Hospital
Notes to Financial Statements**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with current year presentation.

Income Taxes

The Hospital is a governmental entity and, as such, is exempt from federal and state income taxes.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, January 7, 2021, and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Pronouncements Issued But Not Yet Effective

GASB has issued the following pronouncements that may affect future financial position, results of operations, cash flows, or financial presentation of the Hospital upon implementation. Management has not yet evaluated the effect of implementation of these standards.

GASB Statement No.	GASB Accounting Standard	Effective Fiscal Year
84	<i>Fiduciary Activities</i>	2021
87	<i>Leases</i>	2022
89	<i>Accounting for Interest Cost Incurred before the End of a Construction Period</i>	2022
90	<i>Majority Equity Interest an amendment of GASB Statements No. 14 and No. 61</i>	2021
91	<i>Conduit Debt Obligations</i>	2023
92	<i>Omnibus 2020</i>	2022
93	<i>Replacement of Interbank Offered Rates</i>	2022
94	<i>Public-Private and Public-Public Partnerships and Availability Payment Arrangements</i>	2023
96	<i>Subscription-Based Information Technology Arrangements</i>	2024

Wayne General Hospital Notes to Financial Statements

NOTE 2: DEPOSITS AND INVESTMENTS

As of September 30, 2020 and 2019, the Hospital's deposits consisted of the following:

<i>September 30,</i>	2020	2019
Petty cash and undeposited cash	\$ 2,430	\$ 2,430
Cash deposits with financial institutions	24,871,083	6,355,536
Total cash and cash equivalents	\$ 24,873,513	\$ 6,357,966

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits might not be recovered. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

The collateral for public entity deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the Hospital's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation ("FDIC"). All deposits with financial institutions must be collateralized in an amount equal to 105% of uninsured deposits and are therefore fully insured. All of the Hospital's deposits were collateralized and insured at September 30, 2020 and 2019.

Investments

The statutes of the State of Mississippi restrict the authorized investments of the Hospital to obligations of the U.S. Treasury, agencies, and instrumentalities of the United States and certain other types of investments. The Hospital's does not have a formal investment policy that further limits the types of investments available to the Hospital or limits investment maturities as a means of managing its exposure to fair value losses.

Wayne General Hospital
Notes to Financial Statements

NOTE 3: CAPITAL ASSETS

Capital asset activity and balances for the years ended September 30, 2020 and 2019 were as follows:

	Balance 10/1/2019	Additions	Reductions	Transfers	Balance 9/30/2020
Nondepreciable capital assets					
Land	\$ 476,686	\$ -	\$ -	\$ -	\$ 476,686
Construction in progress	247,435	151,309	(398,744)	-	-
Total nondepreciable capital assets	724,121	151,309	(398,744)	-	476,686
Depreciable capital assets					
Land improvements	1,430,714	-	-	(72,193)	1,358,521
Buildings and improvements	15,362,354	462,369	(11,645)	1,792,517	17,605,595
Fixed equipment	2,788,247	6,857	-	(2,015,563)	779,541
Major moveable equipment	14,282,066	680,942	(161,943)	295,239	15,096,304
Total depreciable capital assets	33,863,381	1,150,168	(173,588)	-	34,839,961
Less accumulated depreciation					
Land improvements	(1,046,031)	(53,289)	-	(83,002)	(1,182,322)
Buildings and improvements	(6,241,882)	(396,799)	11,645	(4,871,226)	(11,498,262)
Fixed equipment	(6,112,890)	(4,225)	-	5,364,119	(752,996)
Major moveable equipment	(12,121,232)	(499,081)	160,379	(409,891)	(12,869,825)
Total accumulated depreciation	(25,522,035)	(953,394)	172,024	-	(26,303,405)
Depreciable capital assets, net	8,341,346	196,774	(1,564)	-	8,536,556
Total capital assets, net	\$ 9,065,467	\$ 348,083	\$ (400,308)	\$ -	\$ 9,013,242

Wayne General Hospital
Notes to Financial Statements

NOTE 3: CAPITAL ASSETS

	Balance 10/1/2018	Additions	Reductions	Transfers	Balance 9/30/2019
Nondepreciable capital assets					
Land	\$ 476,686	\$ -	\$ -	\$ -	\$ 476,686
Construction in progress	-	247,435	-	-	247,435
Total nondepreciable capital assets	476,686	247,435	-	-	724,121
Depreciable capital assets					
Land improvements	1,430,714	-	-	-	1,430,714
Buildings and improvements	15,259,844	102,510	-	-	15,362,354
Fixed equipment	2,788,247	-	-	-	2,788,247
Major moveable equipment	14,022,243	259,823	-	-	14,282,066
Total depreciable capital assets	33,501,048	362,333	-	-	33,863,381
Less accumulated depreciation					
Land improvements	(1,025,895)	(20,136)	-	-	(1,046,031)
Buildings and improvements	(5,997,387)	(244,495)	-	-	(6,241,882)
Fixed equipment	(5,971,878)	(141,012)	-	-	(6,112,890)
Major moveable equipment	(11,790,181)	(331,051)	-	-	(12,121,232)
Total accumulated depreciation	(24,785,341)	(736,694)	-	-	(25,522,035)
Depreciable capital assets, net	8,715,707	(374,361)	-	-	8,341,346
Total capital assets, net	\$ 9,192,393	\$ (126,926)	\$ -	\$ -	\$ 9,065,467

Depreciation expense for the years ended September 30, 2020 and 2019 totaled \$953,394 and \$736,694. No interest was capitalized during the years ended September 30, 2020 and 2019.

NOTE 4: SHORT-TERM DEBT

The Hospital received loan proceeds in the amount of \$3,080,740 under the Paycheck Protection Program (“PPP”) in fiscal year ended September 30, 2020. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable as long as the borrower maintains staffing levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. The amount of loan forgiveness will be reduced if the borrower reduces staffing levels, does not expend at least 60% on payroll costs, or does not expend the funds on qualifying expenses. The Hospital has submitted their application for loan forgiveness.

Wayne General Hospital
Notes to Financial Statements

NOTE 5: LONG-TERM DEBT

The Hospital's long-term debt consisted of the following obligations:

<i>September 30,</i>	2020	2019
Note payable to First State Bank, interest rate of 4%, monthly payments of \$7,034, maturing July 2023, collateralized by equipment.	\$ 157,977	\$ 299,167
Note payable to First State Bank, interest rate of 3.74%, monthly payments of \$7,839, maturing March 2023, collateralized by equipment.	224,063	-
Total long-term debt	382,040	299,167
Current portion of long-term debt	(163,758)	(73,617)
Long-term debt, net of current portion	\$ 218,282	\$ 225,550

A summary of changes in the Hospital's long-term debt for the years ended September 30, 2020 and 2019 follows:

	Balance			Balance	Due Within
	10/1/2019	Additions	Reductions	9/30/2020	One Year
Notes payable	\$ 299,167	\$ 265,956	\$ (183,083)	\$ 382,040	\$ 163,758

	Balance			Balance	Due Within
	10/1/2018	Additions	Reductions	9/30/2019	One Year
Notes payable	\$ 369,859	\$ -	\$ (70,692)	\$ 299,167	\$ 73,617

Scheduled principal and interest payments for notes payable are as follows:

<i>Year ending September 30,</i>	Notes Payable	
	Principal	Interest
2021	\$ 163,758	\$ 14,717
2022	170,286	8,189
2023	47,996	1,802
Total	\$ 382,040	\$ 24,708

Wayne General Hospital
Notes to Financial Statements

NOTE 6: NET INVESTMENT IN CAPITAL ASSETS

The Hospital's net investment in capital assets, as presented on the accompanying statements of net position is calculated as follows:

<i>September 30,</i>	2020	2019
Capital assets, net	\$ 9,013,242	\$ 9,065,467
Less long-term debt outstanding related to capital assets	(382,040)	(299,167)
Net investment in capital assets	\$ 8,631,202	\$ 8,766,300

NOTE 7: NET PATIENT SERVICE REVENUE

The Hospital has agreements with governmental and other third-party payors that provide for payments to the Hospital for services rendered at amounts different from its established rates. Patient revenue is reported net of contractual adjustments arising from these third-party arrangements, as well as a net provision for uncollectible accounts. A summary of the payment arrangements with major third-party payors follows:

Medicare – Inpatient acute, swing bed, outpatient, and home health services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicare bad debts are paid at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

Medicaid – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon the Ambulatory Payment Classification ("APC") system for outpatient payments and an APR-DRG system for inpatient payments.

Beginning with the state fiscal year 2016, July 1, 2015, UPL payments were phased out and the Division of Medicaid ("DOM") implemented the Mississippi Hospital Access Payment ("MHAP") program in its place. The MHAP program is administered by the DOM through the Mississippi CAN coordinated care organizations ("CCO"). The CCO's subcontracts with the Hospitals throughout the state for distribution of the MHAP for the purpose of protecting patient access to hospital care. The MHAP program began December 1, 2015 and the MHAP payments and associated tax are distributed and collected in equal monthly installments. For the fiscal years ended September 30, 2020 and 2019, the Hospital received \$2,079,646 and \$2,005,702, respectively, from the MHAP program. MHAP amounts are shown as a reduction of contractual adjustments with related assessments of \$831,458 and \$1,206,194, respectively, for the year ended September 30, 2020 and 2019, recorded in operating expenses.

Wayne General Hospital
Notes to Financial Statements

NOTE 7: NET PATIENT SERVICE REVENUE (CONTINUED)

Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least the possibility that recorded estimates will change. The 2020 and 2019 net patient service revenue increased approximately \$415,000 and \$458,000, respectively, due to prior year retroactive adjustments in excess of amounts previously estimated. The Hospital's cost reports have been settled through 2015.

Other – The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The composition of gross and net patient service revenue for the years ended September 30, 2020 and 2019 is as follows:

<i>For the years ended September 30,</i>	2020	2019
Gross patient service revenue	61,483,641	\$ 61,657,109
Less provision for:		
Contractual adjustments under third-party reimbursement programs and other adjustments	(31,933,798)	(31,321,789)
Provision for bad debts	(3,935,048)	(1,825,001)
Net patient service revenue	\$ 25,614,795	\$ 28,510,319

Gross patient service revenue by major payor class consisted of the following for the years ended September 30, 2020 and 2019:

<i>For the years ended September 30,</i>	2020	2019
Medicare	49%	46%
Medicaid	19%	21%
Other	32%	33%
Total	100%	100%

NOTE 8: NONOPERATING REVENUES

The Coronavirus Aid, Relief, and Economic Security Act of 2020 and Related Legislation

Additional funding for the Public Health and Social Services Emergency Relief Fund (“Relief Fund”) was among the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which was signed into law on March 27, 2020, and other legislation. In the year ended September 30, 2020, the Hospital received cash payments and recognized nonoperating income of

NOTE 8: NONOPERATING REVENUES (CONTINUED)

\$2.4 million due to grants from the Relief Fund and state grant programs, which is reported as nonoperating income in the Hospital's accompanying statement of revenues, expenses, and changes in net position as of September 30, 2020. The Hospital has reported \$14 million of payments as unearned revenue on the statement of net position. Payments from the Relief Fund are not loans and, therefore, they are not subject to repayment. However, as a condition to receiving distributions, providers must agree to certain terms and conditions, including, among other things, that the funds are being used for lost operating revenues and COVID-related costs, and that the providers will not seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider. The Hospital recognizes grant payments as income when there is reasonable assurance of compliance with the conditions associated with the grant. The Hospital's estimates could change materially in the future based on Hospital's operating performance or COVID-19 activities, as well as the evolving grant compliance guidance provided by the government. The CARES Act and the Paycheck Protection Program and Health Care Enhancement Act ("Paycheck Protection Program"), which was signed into law on April 24, 2020, authorized up to \$2 trillion in government spending to mitigate the economic effects of the COVID-19 pandemic. Below is a brief overview of certain provisions of the CARES Act and related legislation that have impacted and are expected to continue to impact the Hospital's business. Please note that this summary is not exhaustive, and additional legislative action and regulatory developments may evolve rapidly. There is no assurance that the Hospital will continue to receive or remain eligible for funding or assistance under the CARES Act or similar measures.

Public Health and Social Services Emergency Relief Fund - To address the fiscal burdens on healthcare providers created by the COVID-19 public health emergency, the CARES Act and the Paycheck Protection Program authorized \$175 billion for the Relief Fund. During the year ended September 30, 2020, HHS commenced distribution of approximately \$100 billion in several tranches from the Relief Fund to providers, including:

- A \$50 billion general distribution to Medicare fee-for-service providers;
- An allocation of approximately \$15 billion to Medicaid and CHIP providers that did not receive an allocation from the \$50 billion general distribution;
- Targeted distributions comprised of (i) \$12 billion for hospitals determined to be in areas particularly impacted by COVID-19 based on reported COVID-19 admissions, (ii) \$10 billion to rural healthcare providers, (iii) \$5 billion to skilled nursing facilities, (iv) \$10 billion to safety net hospitals and (v) \$500 million to tribal hospitals, clinics and urban health centers.

In July 2020, HHS announced the distribution of an additional \$4 billion (\$1 billion to rural hospitals and \$3 billion to safety net hospitals) and the expansion of the Relief Fund to dental providers. Payments from the Relief Fund are not loans and, therefore, they are not subject to repayment.

NOTE 8: NONOPERATING REVENUES (CONTINUED)

However, as a condition to receiving distributions, providers had to agree to certain terms and conditions, including, among other things, that the funds be used for lost operating revenues and COVID-related costs, and that the providers not seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider. Furthermore, HHS has indicated that it will be closely monitoring and, along with the Office of Inspector General, auditing providers to ensure that recipients comply with the terms and conditions of relief programs and to prevent fraud and abuse. All providers will be subject to civil and criminal penalties for any deliberate omissions, misrepresentations or falsifications of any information given to HHS. The Hospital formally accepted the terms and conditions associated with the receipt of Relief Fund payments the Hospital received.

Medicare and Medicaid Payment Policy Changes - The CARES Act also alleviates some of the financial strain on hospitals, physicians, and other healthcare providers and states through a series Medicare and Medicaid payment policies that temporarily increase Medicare and Medicaid reimbursement and allow for added flexibility, as described below.

- Effective May 1, 2020 through December 31, 2020, the 2% sequestration reduction on Medicare FFS and Medicare Advantage payments to hospitals, physicians and other providers authorized by the Sequestration Transparency Act of 2020 is suspended and will resume effective January 2021. The suspension is financed by a one-year extension of the sequestration adjustment through 2030.
- The CARES Act instituted a 20% increase in the Medicare MS-DRG payment for COVID-19 hospital admissions for the duration of the public health emergency as declared by the Secretary of HHS.
- The scheduled reduction of \$4 billion in federal Medicaid DSH allotments in FFY 2020, as mandated by the Affordable Care Act, is suspended until December 1, 2020. Also, the Federal DSH allotment reduction for FFY 2021 will be reduced from \$8 billion to \$4 billion. Notwithstanding these adjustments, the ACA-mandated reduction is not expected to be extended past its original termination in FFY 2025.
- The CARES Act expanded the Medicare accelerated payment program, which provides prepayment of claims to providers in certain circumstances, such as national emergencies or natural disasters. Under this measure, providers could request accelerated payments that may be retained for 120 days during which time providers continue to receive payments for services. At the end of the 120-period, the accelerated payment will be repaid via a 100% offset of payments on claims that would otherwise be paid. The repayment period for hospitals and other providers is one year and 210 days, respectively, from the date of receipt of the accelerated payment, after which interest is assessed on the unpaid balance.

NOTE 8: NONOPERATING REVENUES (CONTINUED)

- A 6.2% increase in the Federal Medical Assistance Percentage (“FMAP”) matching funds was instituted to help states respond to the COVID-19 pandemic. The additional funds are available to states from January 1, 2020 through the quarter in which the public health emergency period ends, provided that states meet certain conditions. An increase in states’ FMAP leverages Medicaid’s existing financing structure, which allows federal funds to be provided to states more quickly and efficiently than establishing a new program or allocating money from a new funding stream. Increased federal matching funds support states in responding to the increased need for services, such as testing and treatment during the COVID-19 public health emergency, as well as increased enrollment as more people lose income and qualify for Medicaid during the economic downturn.

Because of the uncertainty associated with various factors that may influence the Hospital’s future Medicare and Medicaid payments, including future legislative, legal or regulatory actions, or changes in volumes and case mix, there is a risk that the Hospital’s estimates of the impact of the aforementioned payment and policy changes will be incorrect and that actual payments received under, or the ultimate impact of, these programs may differ materially from the Hospital’s expectations.

NOTE 9: INSURANCE PROGRAMS

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. The Hospital is self-insured for employee health claims. Commercial insurance coverage is purchased for claims arising from other matters. Settled claims have not exceeded commercial coverage in any of the three preceding years.

Medical Malpractice Insurance

The Hospital held professional and general liability insurance under a self-funded plan prior to 2007. During 2007, the Hospital purchased professional and general liability insurance to cover medical malpractice claims. The Hospital has not accrued any losses for malpractice claims or expenses for periods subsequent to the self-funded plan. Nevertheless, the future assertion of claims for occurrences prior to year-end is reasonably possible and may occur, although not anticipated. In any event, management believes that any such claims would be substantially covered under its insurance program.

Wayne General Hospital
Notes to Financial Statements

NOTE 9: INSURANCE PROGRAMS (CONTINUED)

The Mississippi Tort Claims Act provides a cap on the amount of damages recoverable against government entities, including governmental hospitals. For claims arising, the amount recoverable is the greater of \$500,000 or the amount of liability insurance coverage that has been retained.

Self-Funded Health Insurance

The Hospital provides health insurance coverage to its employees under a self-funded health plan. Health claims are paid by the Hospital as they are incurred and filed by the employee. An estimated liability for claims incurred but not reported or paid is reported in the statements of net position. Commercial insurance is purchased for claims in excess of \$100,000 per person to limit the Hospital's liability for losses under its self-insurance program.

The claims liability at September 30, 2020 and 2019 is based on the requirements of GASB and provides that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and that amount of loss can be reasonably estimated. Changes in the Hospital's claims liability amount are reflected below:

<i>Years Ended September 30,</i>	2020	2019
Claims liability - beginning of year	\$ 157,572	\$ 169,519
Claims filed and changes in estimates	2,000,973	1,577,624
Claims paid	(1,960,973)	(1,589,571)
Claims liability - end of year	\$ 197,572	\$ 157,572

NOTE 10: RETIREMENT PLAN

The Hospital sponsors a defined contribution plan qualified under Section 403(b) of the Internal Revenue Code (the "Plan"). The Plan covers all employees who elect to participate. The plan allows participants to defer a portion of their annual compensation. The amount of annual contributions to the plan by participants is subject to certain limitations as defined in the plan document. Plan participants vest 100% immediately in their contributions and investment earnings thereon.

Participant contributions are matched by the Hospital up to a maximum of 2%. Employer contributions to the plan for fiscal years ended September 30, 2020 and 2019 was \$205,887 and \$196,775, respectively.

Wayne General Hospital Notes to Financial Statements

NOTE 11: CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The percentage mix of net patient receivables from patients and major third-party payors as of September 30, 2020 and 2019 was as follows:

<i>For the years ended September 30,</i>	2020	2019
Medicare	46%	35%
Medicaid	26%	16%
Commercial insurance	28%	22%
Other	0%	27%
Total	100%	100%

The allowance for self pay was significantly increased for fiscal year ended September 30, 2020 based on collection experience, thus the reduction in the Other category.

NOTE 12: COMMITMENTS AND CONTINGENCIES

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

COVID-19

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant impact on the operating activities and results of the Hospital. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the overall economy, all of which are uncertain.

Wayne General Hospital
Notes to Financial Statements

NOTE 13: BLENDED COMPONENT UNIT

Condensed financial information for the Hospital's blended component unit, Wayne General Hospital Foundation, Inc., for the years ending September 30, 2020 and 2019 was as follows:

Condensed Statement of Net Position	2020	2019
Assets		
Current assets	\$ 50,886	\$ 39,314
Total assets	50,886	39,314
Net position - unrestricted	\$ 50,886	\$ 39,314

Condensed Statements of Revenue, Expenses and Changes in Net Position	2020	2019
Operating revenues	\$ 14,093	\$ 33,071
Operating expenses	3,519	3,971
Operating income	10,574	29,100
Nonoperating revenues	998	320
Change in net position	11,572	29,420
Net position - beginning of year	39,314	9,894
Net position - end of year	\$ 50,886	\$ 39,314

Condensed Statements of Cash Flows	2020	2019
Net cash provided by		
Operating activities	\$ 10,574	29,100
Investing activities	998	320
Net increase in cash and cash equivalents	11,572	29,420
Cash and cash equivalent - beginning of year	39,314	9,894
Cash and cash equivalents - end of year	\$ 50,886	39,314

**Wayne General Hospital
Supplementary Information
Schedule of Surety Bonds for Officials and Employees**

Name	Position	Company	Amount of Bond
Kenny Odom	Trustee/ President	Travelers Casualty and Surety Company of America	\$ 100,000
Annice H. Jordan	Trustee/ Vice President	Travelers Casualty and Surety Company of America	100,000
Charles E. Pitts	Trustee/ Secretary	Travelers Casualty and Surety Company of America	100,000
Martin Stadalis	Trustee	Travelers Casualty and Surety Company of America	100,000
Laura R. Kelley	Trustee	Travelers Casualty and Surety Company of America	100,000
Raymond G. Cooley	Trustee	Travelers Casualty and Surety Company of America	100,000
Cooper M. Leggett	Trustee	Travelers Casualty and Surety Company of America	100,000
Katherine Waddell	Hospital Administrator	Travelers Casualty and Surety Company of America	100,000



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

Board of Trustees
Wayne General Hospital
Waynesboro, Mississippi

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 Wayne General Hospital (the "Hospital"), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated January 7, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2020-01 that we consider to be a significant deficiency.

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 financial statements. 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*.

The Hospital'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 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carly Riggs & Ingram, L.L.C.

Laurel, Mississippi
January 7, 2021

Wayne General Hospital Schedule of Findings and Responses

Finding 2020-01 – Segregation of Duties

Criteria: Proper segregation of duties requires that no single employee have access, authority, and approval over a single financial process.

Condition: The purchasing department and human resources department each have one employee who can perform multiple phases of a transaction that are incompatible.

The materials management purchasing agent has access and is able to perform all of the following duties: inventory counts; placing orders for goods; receiving goods; entering goods into the inventory system; adding new vendors; and approving invoices for payment. In addition, the materials management purchasing agent has access to the accounts payable system.

The human resources director has access and is able to perform all of the following responsibilities: setting up new employees, making changes to the human resources software module, maintaining the payroll system, and processing payrolls.

Cause: Due to limited resources and personnel, a number of duties are performed by a single individual.

Effect: Lack of segregation of duties could lead to errors or irregularities due to one individual performing multiple duties within a single financial process.

Recommendation: Management should reassign duties and responsibilities to other employees to eliminate a single person from having access or being able to perform the entire process.

We recommend that access to the accounts payable system be eliminated for the materials management purchasing agent. In addition, we recommend that the functions of receiving goods and entering goods into the inventory system be performed by two separate individuals. In addition, all inventory counts should be performed by two individuals.

We recommend that the human resources director's access to process a payroll be eliminated thereby limiting his responsibilities to the set up and maintenance of the human resource system and authorization and approval of transactions.

Views of Responsible Officials and Planned Corrective Actions: Management will continue to evaluate the cost benefit of shifting duties and responsibilities within these departments.