

GREENWOOD LEFLORE HOSPITAL

Report to the Board of Hospital Commissioners
January 17, 2023



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The Hospital Board of Commissioners
Greenwood Leflore Hospital
Greenwood, Mississippi

Attention: Board of Commissioners

We are pleased to present this report related to our audit of the financial statements and compliance of Greenwood Leflore Hospital, a component unit of Leflore County, including the City of Greenwood, Mississippi (the "Hospital") for the year ended September 30, 2022. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Hospital's financial and compliance reporting process.

This report is intended solely for the information and use of the Board of Commissioners and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to Hospital.

HORNE LLP

Ridgeland, Mississippi

TABLE OF CONTENTS

Required Communications	1 – 3
Summary of Significant Accounting Estimates	4 – 5
Recorded Adjustments	6
Exhibits	
Exhibit A – Significant Written Communications Between Management and Our Firm	7
• Representation Letter (Draft)	

REQUIRED COMMUNICATIONS

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Our Responsibilities With Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated October 3, 2022. Our audit of the consolidated financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication dated October 3, 2022 regarding the planned scope and timing of our audit and identified significant risks.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Hospital. The following is a description of significant accounting policies or their application that were either initially selected or changed during the year:

- GASB 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes. Fiduciary activities meeting certain criteria (i.e., pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds and custodial funds) will now be reported in a fiduciary fund as part of the basic financial statements.
- GASB 87, *Leases*, enhances comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. Under this statement, all leases are required to be recognized as assets and liabilities with associated deferred inflows and outflows of resources on the financial statements. Furthermore, the statement defines a lease and details the considerations for determining the lease term. The audit standard was applied retroactively back to October 1, 2020 as required resulting in the restatement of prior period balances.

GASB 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, improves financial reporting by (1) enhancing the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) simplifying accounting for interest cost incurred before the end of a construction period. This statement superseded GASB 62, requiring that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost was incurred.

REQUIRED COMMUNICATIONS, CONTINUED

Significant Accounting Policies

We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Unusual Transaction

We identified the following significant unusual transactions and the policies and practices management used to account for these transactions:

- We consider revenue recognition related to the Provider Relief Funds ("PRF") provided by the U.S. Department of Health and Human Services ("HHS") to be an emerging area in which there is a lack of consensus related to authoritative guidance. The financial statements could be materially impacted by any new guidance issued by HHS related to revenue recognition. Any such change would be considered a subsequent event and affect future fiscal years.

Management's Judgments and Accounting Estimates

Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.

Adjustments and Uncorrected Misstatements

Adjustments, other than those that are clearly trivial, proposed by us, as well as management, and recorded by the Hospital are shown in the attached list of Recorded Adjustments.

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Observations About the Audit Process

Disagreements With Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the consolidated financial statements.

Consultations With Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed With Management

The following is a description of significant issues arising from the audit that were discussed with management:

- Complexity and uncertainty of HHS regulations pertaining to revenue recognition of PRF;
- Guidelines and deadline for reporting portal for PRF;
- Single audit requirement for USDA and Ryan White grants;
- Cancer Center certificate of need valuation; and
- Going concern indicators identified

REQUIRED COMMUNICATIONS, CONTINUED

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Significant Written Communications Between Management and Our Firm

Copies of significant written communications between our firm and the management of the Hospital, including the draft representation letter to be provided to us by management, are attached as Exhibit A.

SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following summarizes the significant accounting estimates reflected in the Hospital's September 30, 2022 consolidated financial statements.

Significant Accounting Estimates

Revenue and Receivables

Accounting policy	Allowance for contractual adjustments
Management's estimation process	The estimate of the allowance for contractual adjustments is based upon historical collection percentages by significant payors' categories such as Medicare, Medicaid and commercial insurance and changes in contractual arrangements.
Basis for our conclusion on the reasonableness of the estimate	Estimation process appears reasonable.

Revenue and Receivables

Accounting policy	Allowance for doubtful accounts
Management's estimation process	The estimate of the allowance for doubtful accounts is also based upon the collection history by payor and developing economic trends.
Basis for our conclusion on the reasonableness of the estimate	Estimation process appears reasonable.

Revenue and Receivables

Accounting policy	Due to/from third-party payors
Management's estimation process	The amount of due to/from third-party payors is determined based upon management's best estimate of settlement amounts payable to/receivable from third-party payors, specifically Medicare and Medicaid.
Basis for our conclusion on the reasonableness of the estimate	Estimation process appears reasonable.

Significant Accounting Estimates, continued

Accrued Expenses

Accounting policy	Accrued Health Insurance and Liability Insurance
Management's estimation process	The estimate for employee health insurance costs for claims incurred but not reported, as well as claims payable, and also for professional and general liability are based upon actuarial evaluations.
Basis for our conclusion on the reasonableness of the estimate	Estimation process appears reasonable.

Accrued Expenses

Accounting policy	Net Pension Liabilities
Management's estimation process	The estimate for net pension liability is actuarially determined based on certain assumptions of mortality, compensation, rate of return, and routine and expected employer contributions.
Basis for our conclusion on the reasonableness of the estimate	Estimation process appears reasonable.

Revenue, Operating Expenses

Accounting policy	MHAP Payments and Assessments
Management's estimation process	The estimate for MHAP distributions and related Assessments by the DOM is based on a proposed plan pending CMS approval.
Basis for our conclusion on the reasonableness of the estimate	Estimation process appears reasonable.

Going Concern

Accounting policy	Evaluation of Going Concern Indicators
Management's estimation process	Management continually seeks to identify and evaluate conditions or indicators that could raise substantial doubt about the Hospital's ability to continue as a going concern.
Basis for our conclusion on the reasonableness of the estimate	Adequate

RECORDED ADJUSTMENTS

Management recorded the following adjustments subsequent to the initial trial balance provided:

Decrease in net position, preliminary	\$ (18,287,052)
To adjust net pension liability	(415,536)
To adopt GASB 87	(92)
To record cost report estimate	1,449,450
To adjust IBNR estimate	226,291
To record malpractice expense accrual	<u>(119,382)</u>
Total audit adjustments	<u>1,140,731</u>
Decrease in net position, final	<u>\$ (17,146,321)</u>

EXHIBIT A

Significant Written Communications
Between Management and Our Firm

January 17, 2023

HORNE LLP
661 Sunnybrook Rd, Suite 100
Ridgeland, MS 39157

This representation letter is provided in connection with your audits of the financial statements of Greenwood Leflore Hospital (the "Hospital"), which comprise the statements of net position as of September 30, 2022 and 2021, and the related statements of revenue and expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

We confirm, to the best of our knowledge and belief, that as of January 17, 2023:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated October 3, 2022, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. The methods, data, and significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement, or disclosure that is reasonable in the context of U.S. GAAP, and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related party transactions, including those with the primary government having accountability for the Hospital, joint ventures in which the Hospital has an interest, as defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements and guarantees, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. 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.

7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. The self-insured loss specialist used by management in estimating the loss and loss adjustment expense had a sufficient level of competence and experience in loss estimates, including knowledge about the type(s) of self-insurance programs in place by the Hospital as well as an understanding of the appropriate methods for calculating such loss estimates. We recognize we are responsible for the actuarial amounts and balances and, in our opinion, all such amounts are fairly presented.
9. Management has followed applicable laws and regulations in adopting, approving and amending budgets.
10. Billings to third-party payors comply in all material respects with applicable coding guidelines (e.g., ICD-10 and CPT-4) and laws and regulations, including those dealing with Medicare and Medicaid antifraud and abuse, and billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies (e.g., the Food and Drug Administration), if required; and properly rendered.
11. There have been no oral or written communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, including those related to Medicare and Medicaid antifraud and abuse statutes; deficiencies in financial reporting practices; or other matters that could have a material adverse effect on the financial statements.
12. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private that is not disclosed in the financial statements.
13. There are no investments, intangibles or other assets that have permanently declined in value.
14. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
15. We have complied with all aspects of laws, regulations and provisions of contracts and agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
16. We have no knowledge of any uncorrected misstatements in the financial statements.
17. With respect to accounting estimates included in the financial statements, adequate consideration has been given to, and appropriate provision made for:
 - a. Estimated adjustments to revenue, such as for denied claims.
 - b. Pension obligations, post-retirement benefits other than pensions and deferred compensation agreements attributable to employee services rendered through September 30, 2022.

- c. For obligations related to third-party payor contracts, including risk sharing and contractual settlements.
18. The Hospital has reported to its risk management department all known asserted and unasserted claims and incidents. Adequate and reasonable provision has been made for losses related to asserted and unasserted general and professional liability, health insurance, worker's compensation, and any other claims.
19. We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have appropriately recorded the adjustment.
20. With respect to cost reports:
 - a. We have filed all required Medicare, Medicaid, and similar reports, by the appropriate due dates.
 - b. We are responsible for the accuracy and propriety of all cost reports filed.
 - c. All costs reflected on such reports are appropriate, allowable under applicable reimbursement rules and regulations, patient-related, and properly allocated to applicable payors.
 - d. The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.
 - e. All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.
 - f. Recorded third-party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based upon historical experience or new or ambiguous regulations that may be subject to differing interpretations. While management believes the entity is entitled to all amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.
 - g. The specialist used by management in preparing cost report estimates and reserves had a sufficient level of competence and experience in cost reporting. We recognize we are responsible for the estimated settlement amounts and balances, and, in our opinion, all such amounts are fairly presented.
21. Management has identified and disclosed to you certain indicators of going concern issues. Through our evaluation of these matters, we have determined that they are significant in relation to the Hospital's ability to meet its obligations as they come due. We believe that these matters along with management's related plan of action are adequately and accurately disclosed in the notes to the financial statements.

Information Provided

22. 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.
 - 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. Reports of fiscal intermediaries, third-party payors and other regulatory examinations that have been completed in the past year and we have informed you of all such examinations that are currently in process. We are not aware of any allegations of noncompliance that should be considered for disclosure or as a basis for recording a loss contingency.
 - e. Minutes of the meetings of the Governing Board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - f. Contracts with all significant third-party payors or providers.
23. All transactions have been recorded in the accounting records and are reflected in the financial statements.
24. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
25. It is our responsibility to establish and maintain internal control over financial reporting. One of the components of internal control is risk assessment. We hereby represent that our risk assessment process includes identification and assessment of risks of material misstatement due to fraud. We have shared with you our fraud risk assessment, including a description of the risks, our assessment of the magnitude and likelihood of misstatements arising from those risks, and the controls that we have designed and implemented in response to those risks.
26. We have no knowledge of allegations of fraud or suspected fraud affecting the Hospital's financial statements involving:
 - a. Management.
 - b. Employees who have significant roles in the internal control.
 - c. Others where fraud could have a material effect on the financial statements.
27. We have no knowledge of any allegations of fraud or suspected fraud affecting the Hospital's financial statements received in communications from employees, former employees, analysts, regulators, or others.
28. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered material when preparing financial statements.

29. We are not aware of any pending or threatened litigation and claims whose effects should be considered material when preparing the financial statements.
30. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
31. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the entity's ability to record, process, summarize, and report financial data.
32. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
33. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Nonaudit Services

34. With respect to all nonaudit services performed in the course of the audit:
 - a. We have made all management decisions and performed all management functions;
 - b. We assigned an appropriate individual to oversee the services;
 - c. We evaluated the adequacy and results of the services performed, and made an informed judgment on the results of the services performed;
 - d. We evaluated the adequacy and results of the services performed, and made an informed judgment on the results of the services performed;
 - e. We have accepted responsibility for the results of the services; and
 - f. We have accepted responsibility for all significant judgments and decisions that were made.

Supplementary Information

35. With respect to supplementary information presented in relation to the financial statements as a whole:
 - a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. Supplementary information will not be presented separate from the audited financial statements.

36. With respect to Management's Discussion and Analysis presented to supplement the basic financial statements:
- a. We acknowledge our responsibility for the presentation of such required supplementary information.
 - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
37. With regards to the payments received from the Provider Relief Fund ("PRF") established by the CARES Act, we represent the following:
- a. We believe we have properly attested to the U.S. Department of Health and Human Services' ("HHS") terms and conditions related to the PRF.
 - b. We believe the method we have utilized to recognize revenue associated with the PRF is consistent with acceptable methods outlined in the most recently available guidance provided by HHS and GASB.
 - c. Consistent with the terms and conditions established by HHS, PRF payments were not used to reimburse expenses or losses that have been reimbursed or are obligated to be reimbursed by other sources.
 - d. We acknowledge that the HHS may issue new guidance that could have a material impact on the amount of revenue recognized from the PRF as of September 30, 2022. Such changes would be considered a subsequent event and affect future years.
38. With regards to the payments received from the funding sources established by the CARES Act, we represent the following:
- a. We believe we have properly attested to the U.S. Department of Health and Human Services' ("HHS") terms and conditions related to the Provider Relief Fund.
 - b. We believe the method we have utilized to recognize revenue is consistent with acceptable methods outlined in the most recently available guidance provided by HHS and the Department of Treasury ("DOT").
 - c. Consistent with terms and conditions established by HHS, Provider Relief Fund payments were not used to reimburse expenses or losses that have been reimbursed or are obligated to be reimbursed by other sources.
 - d. We acknowledge that HHS and the DOT may issue new guidance that could have a material impact on the amount of revenue recognized as of September 30, 2022. Such changes would be considered a subsequent event and affect future fiscal years.

Compliance Considerations

In connection with your audit, conducted in accordance with *Government Auditing Standards*, we confirm that management:

39. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
40. Is responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the auditee.
41. Is not aware of any instances of identified and suspected fraud and noncompliance with provisions of laws, regulations, contracts and grant agreements that have a material effect on the financial statements.
42. Is responsible 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.
43. Acknowledges its responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.
44. Has a process to track the status of audit findings and recommendations.
45. Is not aware of any investigations or legal proceedings that have been initiated with respect to the period under audit.
46. Acknowledges its responsibilities as it relates to nonaudit services performed by the auditor, including that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.
47. We acknowledge the current protracted economic decline continues to present difficult circumstances and challenges for the health care industry. Hospitals are facing declines in fair values of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. We understand the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material futures adjustments to asset values, allowances for accounts and contributions receivable, etc. that could negatively impact the Hospital's ability to maintain sufficient liquidity. We acknowledge that you have no responsibility for future changes caused by the current economic environment and resulting impact on the Hospital's financial statements. Furthermore, management and the Board are solely responsible for all aspects of managing the Hospital, including questions the quality and valuation of investments and other assets, reviewing allowances for uncollectible amounts and evaluating capital needs and liquidity plans.

GREENWOOD LEFLORE HOSPITAL

Gary Marchand, Interim Chief Executive Officer

Dawne Holmes, Chief Financial Officer

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