WAYNE GENERAL HOSPITAL
Waynesboro, Mississippi

Audited Financial Statements
Years Ended September 30, 2016 and 2015

CONTENTS

HORNE
CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Wayne General Hospital
Waynesboro, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Wayne General Hospital (the "Hospital"), a component unit of Wayne County, Mississippi, as of and for the years ended September 30, 2016 and 2015, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 business-type activities of the Hospital, as of September 30, 2016 and 2015, and its revenues, expenses and changes in net position and, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 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 audits were 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 on page 26 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 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2017 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Horne LLP

Ridgeland, Mississippi
January 9, 2017

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, 2016 and 2015. Please read it in conjunction with the financial statements in this report.

FINANCIAL HIGHLIGHTS

Fiscal Year Ended September 30, 2016

The Hospital's total net position decreased by $1,285,852 or approximately 6.3 percent from the prior year. This decrease results from the recognition of expenses in excess of revenues (decrease in net position).

At the end of the 2016 fiscal year, the assets of the Hospital exceeded liabilities by $19,064,911. Of this amount, $8,666,316 (unrestricted net position) may be used to meet ongoing obligations to the Hospital's employees, patients and creditors, $10,121,398 is invested in capital assets and $277,197 is designated for use in the Hospital's self-insurance programs. The Hospital established a self-insurance fund in accordance with the requirements of the Mississippi Tort Claims Board. During 2007, the Hospital changed from a self-insurance program and purchased a commercial policy. The Hospital is required to maintain the self-insurance fund for potential claims from the period of self-insurance.

Net patient service revenue increased by $1,551,081 or 6.3 percent, from the prior year. This is due to an increase in surgery cases and outpatient volume. During this same period, operating expenses also increased by $1,557,785 or 5.8 percent from the prior year. This increase is largely due to an increase in salaries and wages and supplies expense. These decreases will be further discussed in the Operating and Financial Performance section of this analysis.

Fiscal Year Ended September 30, 2015

The Hospital's total net position decreased by $1,449,351 or approximately 6.6 percent from the prior year. This decrease results from the recognition of expenses in excess of revenues (decrease in net position).

At the end of the 2015 fiscal year, the assets of the Hospital exceeded liabilities by $20,350,763. Of this amount, $9,270,026 (unrestricted net position) may be used to meet ongoing obligations to the Hospital's employees, patients and creditors, $10,741,140 is invested in capital assets and $339,597 is designated for use in the Hospital's self-insurance programs. The Hospital established a self-insurance fund in accordance with the requirements of the Mississippi Tort Claims Board. During 2007, the Hospital changed from a self-insurance program and purchased a commercial policy. The Hospital is required to maintain the self-insurance fund for potential claims from the period of self-insurance.

Net patient service revenue increased by $1,105,243 or 4.7 percent, from the prior year. This is due to an increase in outpatient and inpatient utilization and clinic visits. During this same period, operating expenses also increased by $70,171 or 0.3 percent from the prior year. This increase is due to an increase in salaries and wages and maintenance and utilities. These increases will be further discussed in the Operating and Financial Performance section of this analysis.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four components - the Management's Discussion and Analysis of Financial Condition and Operating Results (this section), the Independent Auditor's Report, the Financial Statements and Supplementary Information.

The financial statements of the Hospital report the financial position of the Hospital and 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 primary purpose of the statements of cash flows is to provide information about the Hospital's cash from operating, 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.

Following the notes to financial statements is a section containing supplementary information that further explains and supports the information reported in the financial statements. This section includes optional schedules showing gross patient service revenue and operating expenses by department.

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 non-financial factors that should also be considered include changes in economic conditions, population growth (including uninsured and working poor) and new or changed government legislation.

Net Position

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

Condensed Statements of Net Position

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
Current and other assets	$ 12,118,854	$ 13,210,418	$ 14,433,567
Capital assets, net	10,121,398	10,741,140	11,257,775
Total assets	$ 22,240,252	$ 23,951,558	$ 25,691,342
Current liabilities	$ 3,175,341	$ 3,600,795	$ 3,891,228
Total liabilities	$ 3,175,341	$ 3,600,795	$ 3,891,228
Invested in capital assets	$ 10,121,398	$ 10,741,140	$ 11,257,775
Restricted	277,197	339,597	361,879
Unrestricted	8,666,316	9,270,026	10,180,460
Total net position	$ 19,064,911	$ 20,350,763	$ 21,800,114

Fiscal Year Ended September 30, 2016

Current and other assets decreased 8.3 percent primarily due to a decrease in patient accounts receivable at net resulting from stabilizing billing processes associated with the clinics.

Net capital assets decreased 5.8 percent due to current year depreciation expense exceeding purchases.

Current liabilities decreased 11.8 percent from the prior year primarily related to the decrease of accounts payable and accrued payroll.

Fiscal Year Ended September 30, 2015

Current and other assets decreased 8.5 percent primarily due to a decrease in patient accounts receivable at net resulting from improved billings after a full year has passed since the system conversion.

Net capital assets decreased 4.6 percent due to current year depreciation expense exceeding purchases.

Current liabilities decreased 7.5 percent from the prior year primarily related to the decrease of accounts payable and accrued expenses.

Capital Assets

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
Land and land improvements	$ 1,866,399	$ 1,866,399	$ 1,866,399
Construction in progress	8,181	69,122	1,875,261
Building and leasehold improvements	15,147,024	15,103,731	13,154,449
Equipment	15,768,203	15,858,957	15,404,062
Subtotal	32,789,807	32,898,209	32,300,171
Less: accumulated depreciation	(22,668,409)	(22,157,069)	(21,042,396)
Net capital assets	$ 10,121,398	$ 10,741,140	$ 11,257,775

Fiscal Year Ended September 30, 2016

Net capital assets decreased by $619,742 primarily due to current year depreciation expense exceeding purchases. Current year capital additions equaled to $537,473 consisting of 41 additions, and depreciation was $1,096,274.

Accumulated depreciation increased correspondingly with the addition of depreciable assets, offset by disposals of capital assets.

Fiscal Year Ended September 30, 2015

Net capital assets decreased by $516,635 primarily due to current year depreciation expense exceeding purchases. Current year capital additions equaled to $609,554 consisting of 41 additions, and depreciation was $1,126,189.

Accumulated depreciation increased correspondingly with the addition of depreciable assets, offset by disposals of capital assets.

Summary of Revenues and Expenses

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended September 30, 2016, 2015 and 2014:

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
Net patient service revenue	$ 26,339,004	$ 24,787,923	$ 23,682,680
Other operating revenue	663,713	499,894	637,222
Total operating revenues	27,002,717	25,287,817	24,319,902
Salaries and benefits	18,764,135	18,020,526	17,612,374
Depreciation and amortization	1,099,274	1,129,189	1,017,255
Professional fees, supplies and maintenance	8,449,241	7,605,150	8,055,065
Total operating expenses	28,312,650	26,754,865	26,684,694
Loss from operations	(1,309,933)	(1,467,048)	(2,364,792)
Nonoperating revenues			
Grants and contributions	-	1,325	606
Interest income	24,081	16,372	21,223
Decrease in net position	$ (1,285,852)	$ (1,449,351)	$ (2,342,963)

Operating Revenues

Fiscal Year Ended September 30, 2016

The Hospital derived 97.5 percent 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 decrease in other operating revenues is the result of a drop in acute patient days.

Fiscal Year Ended September 30, 2015

The Hospital derived 98.0 percent 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 decrease in other operating revenues is the result of a decrease in revenues associated with electronic health record incentives.

The following table represents the relative percentage of gross charges billed for patient services by payor for the fiscal years ended September 30, 2016, 2015 and 2014:

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
Medicare	44%	47%	45%
Medicaid	23	23	24
Other	33	30	31
Total gross charges	100%	100%	100%

OPERATING AND FINANCIAL PERFORMANCE

The following summarizes statistical information as related to the Hospital's operations:

	2016	2015	2014
Actual number of acute patient days (adult)	6,925	8,252	7,433
Percentage of occupancy (adult)	30.1%	35.9%	32.3%
Newborn infant patient days	500	468	435
Swingbed patient days	2,787	2,926	2,790
Percentage of occupancy (swingbed)	44.9%	47.2%	45.0%
Discharges including deaths (adult)	1,633	2,033	1,849
Average length of stay (adult)	6.0	5.5	5.5
Average daily census (adult)	27	31	28
Medicare days	5,916	7,453	6,036
Medicaid days	2,317	2,670	2,357
Surgery cases	1,054	784	709
Home health visits	7,717	9,191	8,830
Emergency room visits	14,608	15,706	14,291

The following summarizes changes in the Hospital's statements of revenues, expenses and changes in net position between 2016 and 2015:

Fiscal Year Ended September 30, 2016

- Total admissions decreased from previous year, and there was an decrease in total patient days. The Hospital patient days and admissions are 6,925 and 1,826, respectively. This is a decrease of 16.1 percent and 18.8 percent, respectively, from 2015.
- Net patient service revenues increased as stated in the financial highlights. Operating expenses increased as a result of an addition in FTEs. Gross patient service revenue increased to $55,832,956 from $54,218,781 in the prior year.
- Professional fees, supplies and maintenance and utility expense increased $844,091 or 11.1 percent from the prior year.
- Interest income increased $7,709 from prior year due to increase in balances of money market accounts.

Fiscal Year Ended September 30, 2015

- Total admissions increased from previous year, and there was an increase in total patient days. The Hospital patient days and admissions are 8,252 and 2,249, respectively. This is an increase of 11.0 percent and 9.3 percent, respectively, from 2014.
- Net patient service revenues increased as stated in the financial highlights. Operating expenses increased as a result of an addition in FTEs. Gross patient service revenue increased to $54,218,781 from $49,930,774 in the prior year.
- Professional fees, supplies and maintenance and utility expense decreased $449,915 or 5.6 percent from the prior year.
- Interest income decreased $4,851 from prior year due to decrease in balances of money market accounts.

CASH FLOWS

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

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 2017 budget. While the financial outlook for the Hospital is stable, of primary importance in setting the 2017 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
- Impact of Healthcare Reform as it relates to reimbursement and employee health insurance coverage

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, Post Office Box 1249, Waynesboro, Mississippi 39367.

WAYNE GENERAL HOSPITAL
Statements of Net Position
September 30, 2016 and 2015

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,864,861	$ 2,204,374
Patient receivables, net of estimated uncollectibles of $8,203,898 and $6,831,336, respectively	5,186,478	5,653,577
Estimated third-party payor settlements	124,511	222,535
Inventories	409,785	314,163
Prepaid expenses	335,602	357,385
Other current assets	213,570	368,131
Total current assets	9,134,807	9,120,165
Noncurrent cash and investments		
Internally designated by the Board for capital acquisitions	2,202,577	3,092,303
Restricted for use under self-insurance program	277,197	339,597
Total noncurrent cash and investments	2,479,774	3,431,900
Capital assets, net	10,121,398	10,741,140
Other noncurrent assets, net	504,273	658,353
Total assets	22,240,252	23,951,558
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	559,172	660,087
Accrued payroll and withholdings	998,411	1,346,136
Accrued compensated absences	1,617,758	1,594,572
Total current liabilities	3,175,341	3,600,795
NET POSITION		
Net investment in capital assets	10,121,398	10,741,140
Restricted - expendable for self-insurance	277,197	339,597
Unrestricted	8,666,316	9,270,026
Total net position	$ 19,064,911	$ 20,350,763

See accompanying notes.

WAYNE GENERAL HOSPITAL

Statements of Revenues, Expenses and Changes in Net Position

Years Ended September 30, 2016 and 2015

	2016	2015
Operating revenues		
Net patient service revenue, net of provision for bad debts of $4,787,628 in 2016 and $5,476,695 in 2015	$ 26,339,004	$ 24,787,923
Other operating revenue	663,713	499,894
Total operating revenues	27,002,717	25,287,817
Operating expenses		
Salaries and wages	16,353,134	15,803,292
Professional fees	1,134,026	884,084
Employee benefits	2,411,001	2,217,234
Supplies and other	6,051,278	5,487,985
Maintenance and utilities	1,263,937	1,233,081
Depreciation and amortization	1,099,274	1,129,189
Total operating expenses	28,312,650	26,754,865
Loss from operations	(1,309,933)	(1,467,048)
Nonoperating revenues		
Grants and contributions	-	1,325
Interest income	24,081	16,372
Total nonoperating revenues	24,081	17,697
Decrease in net position	(1,285,852)	(1,449,351)
Net position, beginning of year	20,350,763	21,800,114
Net position, end of year	$ 19,064,911	$ 20,350,763

See accompanying notes.

WAYNE GENERAL HOSPITAL

Statements of Cash Flows

Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 26,904,127	$ 25,854,214
Payments to suppliers and contractors	(8,407,034)	(8,094,739)
Payments to employees	(19,088,674)	(17,818,724)
Other receipts and payments, net	814,793	719,188
Net cash provided by operating activities	223,212	659,939
Cash flows from noncapital financing activities		
Noncapital grants and contributions	-	1,325
Cash flows from capital and related financing activities		
Purchases of capital assets	(476,532)	(609,554)
Cash flows from investing activities		
Interest on investments	24,081	16,372
Net increase (decrease) in cash and cash equivalents	(229,239)	68,082
Cash and cash equivalents, beginning of year	5,296,677	5,228,595
Cash and cash equivalents, end of year	$ 5,067,438	$ 5,296,677
Reconciliation of loss from operations to net cash provided by operating activities		
Loss from operations	$ (1,309,933)	$ (1,467,048)
Adjustments to reconcile loss from operations to net cash provided by operating activities		
Depreciation and amortization	1,099,274	1,129,189
Provision for bad debts	4,787,628	5,476,695
Changes in assets and liabilities		
Patient receivables	(4,320,529)	(4,449,170)
Inventories	(95,622)	(10,822)
Estimated third-party payor settlements	98,024	38,766
Other assets	389,824	232,762
Accounts payable	(100,915)	(492,235)
Accrued salaries and compensated absences	(324,539)	201,802
Net cash provided by operating activities	$ 223,212	$ 659,939
Reconciliation of cash and cash equivalents to statements of net position		
Cash and cash equivalents	$ 2,864,861	$ 2,204,374
Noncurrent cash and investments		
Internally designated by the Board for capital acquisitions	2,202,577	3,092,303
Total cash and cash equivalents	$ 5,067,438	$ 5,296,677

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies

Nature of Operations and 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 80 inpatient beds.

Budgetary Information

The Hospital is required by statute of the State of Mississippi to prepare a non-appropriated annual budget. The budget is not subject to appropriation and is therefore not required to be presented as supplementary information.

The significant accounting policies used by the Hospital in preparing and presenting its financial statements are as follows:

Basis of Accounting

The Hospital prepares its financial statements as a business-type activity in conformity with the applicable pronouncements of the Governmental Accounting Standards Board ("GASB"). The accompanying financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus.

New Accounting Standards Adopted

Governmental Accounting Standards Board Statement No. 72 ("GASB 72")

The Hospital adopted GASB No. 72, *Fair Value Measurement and Application*, in fiscal year 2016. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The adoption of this standard did not have a material impact on the Hospital's financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most sensitive estimates included in these financial statements relate to contractual discounts under third-party contracts and the allowance for uncollectible accounts receivable.

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

The accounting estimates used in the preparation of the financial statements will change as new events occur, as more experience is acquired and as additional information is obtained. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. In particular, laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates related to these programs will change by a material amount in the near term.

Cash and Cash Equivalents

Cash and cash equivalents include all cash accounts and investments in highly liquid instruments with an original maturity of three months or less, including cash and investments internally designated by the Board for capital acquisitions.

Cash and cash equivalents includes funds held on behalf of employees who participate in the Hospital's Christmas Club Program. Funds that were not paid out at September 30, 2016 and 2015, respectively, totaled $313,044 and $271,014. The Hospital has recorded an accrual for these amounts, which are included in accrued payroll and withholdings on the accompanying statements of net position.

Patient Receivables

Patient receivables are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts and third-party contractual discounts. The allowance for uncollectible accounts is based on historical losses and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts, 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 cost based on the first-in, first-out method, or at market, whichever is lower.

Prepaid Expenses

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

Noncurrent Cash and Investments

Noncurrent cash and investments include assets set aside by the Board of Trustees for future capital improvements as well as assets externally restricted for use in its self-insurance program. The Board retains control of the funds set aside for future capital improvements and may, at its discretion, subsequently use them for other purposes.

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

The Hospital's noncurrent cash and investments consist of money market deposits and are carried at cost plus accrued interest. Interest income is reported as non-operating revenues.

Capital Assets, Net

Capital asset acquisitions are recorded at cost, if purchased or at fair value at the date of the gift, if donated. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

In accordance with GASB, management evaluates assets for potential impairment when a significant, unexpected decline in the service utility of a capital asset occurs.

Other Noncurrent Assets

Medical records associated with the purchase of certain assets of the Waynesboro Family Clinic (the "Clinic") are included in other noncurrent assets, net of accumulated amortization of $24,250 and $21,250 at September 30, 2016 and 2015, respectively. Amortization expense is calculated using the straight-line method over the estimated useful life.

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 a current asset in the accompanying statements of net position.

Impairment of Long-Lived Assets

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount of fair value less costs to sell.

Compensated Absences

The Hospital policy is to compensate employees for absences due to earned vacation and sick leave. Accumulated vacation pay is accrued at the balance sheet date because it is payable upon termination of employment. Sick pay accrues but is not reflected as a liability because it is not payable upon termination of employment.

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Net Position

Net position consists of net investment in capital assets; restricted and unrestricted. The net investment in capital assets consists of capital assets net of accumulated depreciation and the outstanding balance of any related debt that is attributable to the acquisitions of the capital assets. Restricted are those resources that are externally restricted by creditors, grantors, contributors or laws and regulations or those restricted by constitutional provisions and enabling legislation. Unrestricted net position consists of resources that do not meet the definition of invested in capital assets, net of related debt or restricted. When both restricted and unrestricted resources are available to finance particular programs, it is the Hospital's policy to use the restricted resources before using the unrestricted resources.

Of the $8,666,316 and $9,270,026 of unrestricted net position reported at September 30, 2016 and 2015, respectively, $2,202,577 and $3,092,303 has been designated by the Hospital's Board of Trustees for capital acquisitions at September 30, 2016 and 2015, respectively. Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for the other purposes.

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 medical 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 as charity care, these charges are not reported as revenue.

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Operating Revenues and Expenses

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

Estimated Malpractice Costs

The Hospital considers the need for recording a liability for malpractice claims. When determined to be necessary, the provision for estimated malpractice claims and the cost associated with litigation and settlement includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Income Taxes

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

Note 2. Cash Deposits and Investments

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits might not be recovered. The collateral for public entities' deposits in financial institutions is 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 entity'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 percent of uninsured deposits and are therefore fully insured. The bank balances of the collateralized and insured balances were $5,115,145 and $5,334,134 at September 30, 2016 and 2015, respectively.

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 does not have a formal investment policy that further limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. The Hospital's noncurrent cash and investments consist of money market funds held at one financial institution.

NOTES TO FINANCIAL STATEMENTS

Note 2. Continued

The composition of noncurrent cash and investments at September 30, 2016 and 2015 is as follows:

	2016	2015
Designated by the Board for capital improvements		
Money market accounts	$ 2,202,577	$ 3,092,303
Designated for use under self-insurance programs		
Money market accounts	277,197	339,597
	$ 2,479,774	$ 3,431,900

Note 3. Other Current Assets

The composition of other current assets at September 30, 2016 and 2015 is as follows:

	2016	2015
Current portion of advances to and receivable from healthcare professionals	$ 126,753	$ 122,814
Other	86,817	245,317
	$ 213,570	$ 368,131

Note 4. Capital Assets, Net

Major classes of capital assets at September 30, 2016 and 2015 are summarized as follows:

	2016	2015
Land and improvements	$ 1,866,399	$ 1,866,399
Buildings	13,260,048	13,260,048
Building improvements	1,886,976	1,843,684
Fixed equipment	2,788,247	2,788,247
Major moveable equipment	12,979,956	13,070,710
Total capital assets	32,781,626	32,829,088
Less accumulated depreciation	(22,668,409)	(22,157,070)
Construction in progress	8,181	69,122
Capital assets, net	$ 10,121,398	$ 10,741,140

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

Depreciation expense for the years ended September 30, 2016 and 2015, totaled $1,096,274 and $1,126,189, respectively.

Capital asset additions, retirements and balances for the year ended September 30, 2016 were as follows:

	Balance September 30, 2015	Increases	Decreases	Balance September 30, 2016
Capital assets not being depreciated				
Land	$ 476,686	$ -	$ -	$ 476,686
Construction in progress	69,122	-	(60,941)	8,181
Total capital assets not being depreciated	545,808	-	(60,941)	484,867
Capital assets being depreciated				
Land improvements	1,389,713	-	-	1,389,713
Buildings	13,260,048	-	-	13,260,048
Building improvements	1,843,684	43,292	-	1,886,976
Fixed equipment	2,788,247	-	-	2,788,247
Major moveable equipment	13,070,710	494,181	(584,935)	12,979,956
Total capital assets being depreciated	32,352,402	537,473	(584,935)	32,304,940
Less accumulated depreciation for				
Land improvements	(960,655)	(24,960)	-	(985,615)
Buildings	(4,184,763)	(258,714)	-	(4,443,477)
Building improvements	(1,067,451)	(3,000)	-	(1,070,451)
Fixed equipment	(5,537,940)	(151,916)	-	(5,689,856)
Major moveable equipment	(10,406,261)	(657,684)	584,935	(10,479,010)
Total accumulated depreciation	(22,157,070)	(1,096,274)	584,935	(22,668,409)
Capital assets being depreciated, net	10,195,332	(558,801)	-	9,636,531
Capital assets, net	$ 10,741,140	$ (558,801)	$ (60,941)	$ 10,121,398

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

Capital asset additions, retirements and balances for the year ended September 30, 2015 were as follows:

	Balance September 30, 2014	Increases	Decreases	Balance September 30, 2015
Capital assets not being depreciated				
Land	$ 476,686	$ -	-	$ 476,686
Construction in progress	1,875,261	111,801	(1,917,940)	69,122
Total capital assets not being depreciated	2,351,947	111,801	(1,917,940)	545,808
Capital assets being depreciated				
Land improvements	1,389,713	-	-	1,389,713
Buildings	11,340,003	1,920,045	-	13,260,048
Building improvements	1,814,446	29,238	-	1,843,684
Fixed equipment	2,775,378	12,869	-	2,788,247
Major moveable equipment	12,628,684	453,541	(11,515)	13,070,710
Total capital assets being depreciated	29,948,224	2,415,693	(11,515)	32,352,402
Less accumulated depreciation for				
Land improvements	(931,855)	(28,800)	-	(960,655)
Buildings	(3,956,789)	(227,974)	-	(4,184,763)
Building improvements	(1,031,451)	(36,000)	-	(1,067,451)
Fixed equipment	(5,381,940)	(156,000)	-	(5,537,940)
Major moveable equipment	(9,740,361)	(677,415)	11,515	(10,406,261)
Total accumulated depreciation	(21,042,396)	(1,126,189)	11,515	(22,157,070)
Capital assets being depreciated, net	8,905,828	1,289,504	-	10,195,332
Capital assets, net	$ 11,257,775	$ 1,401,305	(1,917,940)	$ 10,741,140

NOTES TO FINANCIAL STATEMENTS

Note 5. Other Noncurrent Assets

The composition of other noncurrent assets at September 30, 2016 and 2015 consisted of the following:

	2016	2015
Deposits	$ 200	$ 200
Medical records, net of accumulated amortization	5,750	8,750
Advances to and receivables from healthcare professionals, less current portion	498,323	649,403
Total other noncurrent assets	$ 504,273	$ 658,353

Note 6. Retirement Plan

The Board of Trustees of the Hospital has established a defined contribution retirement plan for the benefit of the Hospital's employees. Participants may direct the investment of their account balance within a predefined range of investment alternatives. Participant contributions are matched by the employer on a 1 to 1 basis, up to a maximum contribution as defined by the plan; however, the employee must contribute a minimum of 2 percent to receive the employer match.

The participant can elect to make voluntary contributions, in addition to the above, of up to 20 percent of compensation, which are not matched by the employer.

Actual contributions during the years ended September 30, 2016 and 2015 were as follows:

	2016	2015
Hospital	$ 172,325	$ 181,368
Participant	557,287	504,989
Total	$ 729,612	$ 686,357

Note 7. Insurance Programs

Risk Management

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; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. The Hospital also carries insurance for medical malpractice claims and judgments, as discussed below.

NOTES TO FINANCIAL STATEMENTS

Note 7. Continued

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.

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 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 included in accrued expenses and operating expenses in the accompanying financial statements. Commercial insurance is purchased for claims in excess of coverage provided by the Hospital to limit the Hospital's liability or losses under its self-insurance program. Settled claims have not exceeded this commercial insurance in either of the past three years.

The claims liability at September 30, 2016 and 2015 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:

	2016	2015
Claims liability, beginning of year	$ 157,572	$ 181,632
Claims filed and changes in estimates	1,632,479	1,172,607
Claims paid	(1,632,479)	(1,196,667)
Claims liability, end of year	$ 157,572	$ 157,572

Note 8. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital for services rendered at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Note 8. Continued

Medicare

Inpatient acute, swingbed, 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 and disproportionate share payments are paid at a tentative rate with final settlement determined after submission of annual costs and audits thereof by the fiscal intermediary.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate, which is adjusted annually based on published market basket updates (inpatient) or adjusted cost-to-charge ratios per annual cost reports (outpatient) as submitted by the Hospital and settled by the Medicaid fiscal intermediary. Beginning September 1, 2012, the Medicaid program changed to an Ambulatory Payment Classification ("APC") system for outpatient payments and beginning October 1, 2012, an APR-DRG system for inpatient payments.

Revenue from the Medicare and Medicaid programs accounted for approximately 44 percent and 23 percent, respectively, of the Hospital's gross patient service revenue for the year ended 2016. During 2015, revenue from Medicare and Medicaid programs accounted for 47 percent and 23 percent, respectively, of the Hospital's gross patient service revenue. 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 will change by a material amount in the near-term. The 2016 and 2015 net patient service revenue increased approximately $67,400 and $99,000, respectively, due to prior-year retroactive adjustments in excess of amounts previously estimated. The Hospital's cost reports have been settled through 2013.

The Hospital participates in the Mississippi Intergovernmental Transfer Program as a Medicaid Disproportionate Share Hospital ("DSH") and in the Medicaid Upper Payment Limit Program ("UPL"). Under these programs, the Hospital receives enhanced reimbursement through a matching mechanism. For the fiscal year ended September 30, 2015, the Hospital received $2,048,870 from the UPL program. DSH and UPL amounts are shown as a reduction of contractual adjustments with related assessment of $1,393,550 for the year ended September 30, 2015, recorded in operating expenses.

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 (the "MHAP Program") in its place. The MHAP Program will be administered by the DOM through the Mississippi CAN coordinated care organizations ("CCO"). The CCO's will subcontract 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 were distributed and collected in equal monthly installments. For the fiscal year ended September 30, 2016, the Hospital received $2,387,481 from the MHAP program. MHAP amounts are shown as a reduction of contractual adjustments with related assessments of $1,741,036 for the year ended September 30, 2016, recorded in operating expenses.

NOTES TO FINANCIAL STATEMENTS

Note 8. Continued

Managed Care

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.

A summary of gross and net patient service revenue for the years ended September 30, 2016 and 2015 follows:

	2016	2015
Gross patient service revenue	$ 55,832,956	$ 54,218,781
Less provisions for		
Contractual adjustments under third-party reimbursement programs and other deductions	24,706,324	23,954,163
Provision for bad debts	4,787,628	5,476,695
Net patient service revenue	$ 26,339,004	$ 24,787,923

Note 9. Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under the Hospital's charity care policy aggregated approximately $1,639,000 and $1,237,000 for the years ended September 30, 2016 and 2015, respectively. The estimated cost of charity care, estimated using a ratio of cost to gross charges, totaled approximately $831,000 and $610,000 for the years ended September 30, 2016 and 2015, respectively.

Note 10. Concentrations of Credit Risk

Patient Receivables

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 at September 30, 2016 and 2015 was as follows:

	2016	2015
Medicare	30%	35%
Medicaid	11	12
Commercial insurance	20	21
Other	39	32
Total	100%	100%

NOTES TO FINANCIAL STATEMENTS

Note 11. Commitments and Contingencies

The Hospital is involved in litigation and regulatory investigations arising in the normal course of business. Based on consultations with legal counsel, management is of the opinion that these matters will be resolved without material adverse effect on the Hospital's future financial position or on the results of its future operations.

Note 12. Risks and Uncertainties

The Patient Protection and Affordable Care Act ("ACA") is the comprehensive healthcare reform bill passed by Congress in March 2010. The law reshapes the way healthcare is delivered and financed by transitioning providers from a volume-based fee-for-service system toward value-based care. Through a series of new programs, regulations, fees and subsides, the ACA seeks to achieve a triple aim of better population health, lower per capita costs and elevated patient experience. Several legal challenges have been made against the legislation since it was enacted, and uncertainty exists as to the ultimate impact of the legislation on the healthcare delivery system. On June 28, 2012, the United States Supreme Court upheld the constitutionality of components of the ACA, allowing the historic overhaul of the healthcare system to continue. Potential impacts of healthcare reform include political uncertainty and volatility in Medicare and Medicaid reimbursement, fundamental changes in payment systems, increased regulation and significant required investments in healthcare information technology.

The accompanying financial statements have been prepared using values and information currently available to the Hospital.

WAYNE GENERAL HOSPITAL
Schedule of Surety Bonds for Officials and Employees
September 30, 2016

Name	Position	Company	Amount Of Bond
Kenny Odom	Trustee/ President	Travelers Casualty and Surety Company of America	$ 100,000
Martin Stadalis	Trustee/ Vice-President	Travelers Casualty and Surety Company of America	100,000
Gene A. Cooper	Trustee/ Secretary	Travelers Casualty and Surety Company of America	100,000
Margaret Nored	Trustee	Travelers Casualty and Surety Company of America	100,000
William H. Hutto	Trustee	Western Surety Company	100,000
E. S. Roberts	Trustee	Travelers Casualty and Surety Company of America	100,000
Clifford McCarty	Trustee	Travelers Casualty and Surety Company of America	100,000
Raymond G. Cooley	Trustee	Travelers Casualty and Surety Company of America	100,000
Katherine Waddell	Hospital Administrator	Travelers Casualty and Surety Company of America	100,000

HORNE
CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Wayne General Hospital (the "Hospital"), as of September 30, 2016, 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 9, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2016-1 and 2016-2 to be significant deficiencies.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amount. 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 Responses to Findings

The Hospital's response to the findings 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. Accordingly, this communication is not suitable for any other purpose.

Horne LLP

Ridgeland, Mississippi
January 9, 2017

Significant Deficiencies:

Reference Number	Finding

Finding 2016 -1

Criteria or Specific Requirement – Proper segregation of duties requires that no single employee have access, authority and approval over a single process.

Condition – The materials management purchasing agent has all of the following responsibilities: performs inventory level counts, places orders, signs for receipt of goods and enters receipt of goods into the system, adds new vendors and initials invoices indicating the invoice is ready to be processed for payment. In addition to those responsibilities, the materials management purchasing agent also has access to the accounts payable system.

Context – Segregation of duties is required to mitigate risk related to access, authority and approval within the purchasing department.

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

Cause – Lack of personnel within the purchasing department.

Recommendation – Management should shift a portion of the responsibilities of the purchasing agent to another employee, who does not have conflicting duties within the Hospital, to eliminate a single person from performing the entire process.

Views of Responsible Official and Planned Corrective Actions – Management will continue to evaluate the cost benefit of shifting these duties.

Finding 2016 -2

Criteria or Specific Requirement – Proper segregation of duties requires that no single employee have access, authority and approval over a single process.

Condition – The human resources director has all of the following responsibilities: sets up new employees and making changes to the HR module, maintains the payroll system and processes payroll.

Context – Segregation of duties is required to mitigate risk related to access, authority and approval within the payroll department.

Significant Deficiencies:

Reference Number	Finding
	Effect – Lack of segregation of duties could lead to errors or irregularities due to one individual performing multiple duties within a single process.
	Cause – Lack of personnel within the payroll department.
	Recommendation – Management should shift a portion of the responsibilities of the human resource director to another employee, who does not have conflicting duties within the Hospital, to eliminate a single person from performing the entire process.
	Views of Responsible Officials and Planned Corrective Actions – Management will continue to evaluate the cost benefit of shifting these duties.