Financial Statements
September 30, 2017 and 2016

Steele Memorial Medical Center

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Directors
Steele Memorial Medical Center
Salmon, Idaho

Report on the Financial Statements
We have audited the accompanying financial statements of Steele Memorial Medical Center (the Hospital) and its discretely presented component unit, the Steele Memorial Foundation, as of and for the year ended September 30, 2017, 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 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 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 respective financial position of Steele Memorial Medical Center and of its discretely presented component unit as of September 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustments to Prior Period Financial Statements
The financial statements of the Hospital, as of and for the year ended September 30, 2016, were audited by other auditors, whose report dated March 13, 2017, expressed an unmodified opinion on those statements. As discussed in Note 12 to the financial statements, the presentation of the Hospital's discretely presented component unit was excluded from the financial statements for the year ended September 30, 2016. In addition, management discovered understatements in construction in process and accounts payable. Accordingly the 2016 financial statements have been restated to correct this error. The other auditors reported on the 2016 financial statements before the restatement.

As part of our audit of the 2017 financial statements, we also audited the adjustments described in Note 12 that were applied to restate the 2016 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2016 financial statements of the Hospital other than with respect to the adjustments and, accordingly, we do not present an opinion or any other form of assurance on the 2016 financial statements as a whole.

Other Matter
Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued a report dated January 23, 2018 on our consideration of Steele Memorial Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Eide Bailly LLP

Boise, Idaho
January 23, 2018

	2017	2016, as restated
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	$ 7,250,439	$ 6,856,042
Cash and cash equivalents restricted for debt reserve	490,000	480,000
Receivables		
Patient, net of estimated uncollectibles of $1,073,000 in 2017 and $1,250,000 in 2016	3,863,047	3,536,497
Estimated third-party payor settlements	447,252	171,842
Other	58,344	52,744
Inventories	1,045,248	852,006
Prepaid expenses	298,252	315,425
Total current assets	13,452,582	12,264,556
Noncurrent Cash, Cash Equivalents, and Investments		
Investments in certificates of deposits	926,674	919,118
Restricted by trustee for debt reserve	223,518	622,559
Investment in Yellowstone Insurance Exchange	330,730	307,890
Restricted for capital acquisition	-	4,870,380
Total noncurrent cash and cash equivalents	1,480,922	6,719,947
Capital Assets		
Capital assets not being depreciated	1,059,898	4,278,251
Capital assets being depreciated, net	15,816,919	9,584,238
Total capital assets	16,876,817	13,862,489
Total assets	31,810,321	32,846,992
Deferred Outflows of Resources		
Refunding costs	447,376	488,386
Total assets and deferred outflows of resources	$ 32,257,697	$ 33,335,378

	2017	2016, as restated
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 766,569	$ 729,158
Accounts payable		
Trade	1,243,308	826,574
Estimated third-party payor settlements	-	52,000
Construction	-	912,224
Accrued expenses		
Salaries and wages	1,103,737	966,791
Interest	20,683	22,067
Total current liabilities	3,134,297	3,508,814
Long-Term Debt, Less Current Maturities	11,932,743	12,747,854
Total liabilities	15,067,040	16,256,668
Net Position		
Net investment in capital assets	4,624,881	2,649,751
Restricted		
Expendable for debt service	713,518	622,559
Expendable for capital acquisition	-	3,094,492
Unrestricted	11,852,258	10,711,908
Total net position	17,190,657	17,078,710
Total liabilities and net position	$ 32,257,697	$ 33,335,378

	2017	2016
Assets		
Cash and cash equivalents	$ 79,854	$ 76,244
Contributions receivable, net	510,635	617,017
Long-term investments	45,245	42,298
Total assets	$ 635,734	$ 735,559
Net Assets		
Unrestricted	$ 125,099	$ 118,542
Temporarily restricted	510,635	617,017
Total net assets	$ 635,734	$ 735,559

	2017	2016
Operating Revenues		
Net patient service revenue, net of provision for bad debts of $864,000 in 2017 and $892,000 in 2016	$ 24,701,212	$ 22,649,207
Electronic health records incentive payment	34,578	7,840
Other revenue	208,656	161,092
Total operating revenues	24,944,446	22,818,139
Operating Expenses		
Salaries and wages	9,179,155	7,933,155
Employee benefits	2,327,374	1,913,398
Professional fees and purchased services	4,674,343	4,274,542
Supplies	5,042,262	4,748,990
Insurance	270,786	254,465
Depreciation and amortization	1,474,858	1,139,243
Other	2,158,537	1,833,452
Total operating expenses	25,127,315	22,097,245
Operating Income (Loss)	(182,869)	720,894
Nonoperating Revenues (Expenses)		
Property tax appropriation	406,681	407,937
Investment income	43,103	61,645
Interest income	21,761	9,483
Interest expense	(383,059)	(454,719)
Noncapital contributions and grants	-	39,130
Gain on disposal of capital assets	8,121	7,343
Net nonoperating revenues	96,607	70,819
Revenues in Excess of (Less Than) Expenses Before Capital Contributions and Grants	(86,262)	791,713
Capital Contributions and Grants	198,209	168,000
Change in Net Position	111,947	959,713
Net Position, Beginning of Year	17,078,710	16,118,997
Net Position, End of Year	$ 17,190,657	$ 17,078,710

	2017	2016
Unrestricted Net Assets		
Support and revenue		
Contributions	$ 153,472	$ 88,813
Special events	-	876
Net assets released from restrictions	125,000	125,000
Investment income	89	6
Total support and revenue	278,561	214,695
Expenses		
Contributions	246,358	168,000
Program and fundraising	6,148	3,157
General services and administrative	4,875	7,704
Total expenses	257,381	178,861
Increase in Unrestricted Net Assets	21,180	35,834
Changes in Temporarily Restricted Net Assets		
Investment income	3,995	1,665
Net assets released from restrictions	(125,000)	(125,000)
Decrease in Temporarily Restricted Net Assets	(121,005)	(123,335)
Change in Net Assets	(99,825)	(87,501)
Net Assets, Beginning of Year	735,559	823,060
Net Assets, End of Year	$ 635,734	$ 735,559

	2017	2016
Operating Activities		
Receipts from and on behalf of patients	$ 24,047,252	$ 22,372,868
Payments to suppliers and contractors	(12,686,141)	(11,409,530)
Payments to and on behalf employees	(11,506,529)	(9,846,553)
Other receipts and payments, net	243,234	168,932
Net Cash from Operating Activities	97,816	1,285,717
Noncapital Financing Activities		
Noncapital grants	-	39,130
Property tax appropriation received	406,681	407,937
Net Cash from Noncapital Financing Activities	406,681	447,067
Capital and Capital Related Financing Activities		
Principal payments on long-term debt	(729,157)	(650,727)
Interest paid	(391,976)	(411,130)
Purchase and construction of capital assets	(4,477,029)	(2,910,930)
Capital contributions	198,209	168,000
Proceeds from the issuance of long-term debt	-	6,300,000
Net Cash from (used for) Capital and Capital Related Financing Activities	(5,399,953)	2,495,213
Investing Activities		
Investment income	21,761	9,483
Sales and maturities of noncurrent cash and investments	4,879,051	451,144
Purchases of noncurrent cash and investments	-	(5,301,781)
Net Cash from (used for) Investing Activities	4,900,812	(4,841,154)
Net Change in Cash and Cash Equivalents	5,356	(613,157)
Cash and Cash Equivalents, Beginning of Year	7,958,601	8,571,758
Cash and Cash Equivalents, End of Year	$ 7,963,957	$ 7,958,601

	2017	2016
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents in current assets	$ 7,740,439	$ 7,336,042
Cash and cash equivalents in noncurrent cash and investments	223,518	622,559
Total cash and cash equivalents	$ 7,963,957	$ 7,958,601
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities		
Operating income (loss)	$ (182,869)	$ 720,894
Adjustments to reconcile operating income (loss) to net cash from (used for) operating activities		
Depreciation on capital assets	1,462,701	1,139,243
Amortization	12,157	-
Provision for bad debts	863,663	892,810
Changes in assets and liabilities		
Patient receivables	(1,190,213)	(1,251,388)
Other receivables	(5,600)	80,382
Estimated third-party payor settlements	(327,410)	82,239
Supplies	(193,242)	(89,994)
Prepaid expenses	17,173	(9,351)
Accounts payable	(495,490)	(161,589)
Accrued expenses	136,946	(117,529)
Net Cash from Operating Activities	$ 97,816	$ 1,285,717
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Accounts payable for construction and equipment	$ -	$ 912,224

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of Steele Memorial Medical Center (the Hospital) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Hospital are described below.

Reporting Entity

The Hospital is an 18-bed critical access hospital and rural health clinic located in Salmon, Idaho. Steele Memorial Medical Center is a component unit of Lemhi County and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(a). The Hospital is governed by the Board of Directors, which are appointed by the Board of County Commissioners of Lemhi County. As organized, the Hospital is exempt from payment of federal and state income taxes.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that the exclusion would cause the Hospital's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital.

Discretely Presented Component Unit

Steele Memorial Foundation (the Foundation) was established for healthcare purposes and to advance and assist in the development, growth, and operation of the Hospital. Funds raised are distributed to the Lemhi County community primarily through the purchases of property and equipment and patient assistance. The Foundation has been determined to be a component unit and is presented as a discretely presented component unit in the Hospital's financial statements. Financial statements of the Foundation are prepared under a separate cover and can be obtained by contacting the Foundation's Director.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statements of net position displays the Hospital's assets, deferred outflows and liabilities with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

Restricted net position:

Expendable - Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital. There were no nonexpendable net position amounts as of September 30, 2017 and 2016, respectively.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Hospital's policy is to first apply the expense towards the most restrictive resources then toward the unrestricted resources.

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, deferred outflow of resources, 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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statements of cash flows, the Hospital considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Patient Receivables

Patient and resident receivables are uncollateralized patient, resident and third-party payor obligations. Payments of patient and resident receivables are allocated to specific claims identified on the remittance advice, or if unspecified, applied to the earliest unpaid claim. Account balances with invoices dated over 90 days old and account balances with no payment for 90 days are considered delinquent. No interest is charged on overdue accounts.

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Contributions Receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received and all eligibility requirements have been met. Contributions receivable that are expected to be collected in more than one year are recorded at the discounted present value of expected future payments at the date of promise. Amortization of the resulting discount is recognized as additional contribution revenue. As of September 30, 2017 and 2016, no allowance for uncollectible contributions receivable was deemed necessary.

Inventories

Inventories are stated at cost on the first-in, first-out method. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the Hospital's operation.

Noncurrent Cash and Investments

Noncurrent cash and investments are set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, restricted by trustee for debt reserve and capital asset replacement, and restricted by donors. Non-brokered certificates of deposit and other deposits are recorded at historical cost. Other investments are measured at fair value.

Investment Income

Interest, dividends, gains and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenues when earned.

Capital Assets

Property and equipment acquisitions in excess of $5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital leases is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

Land improvements	15 years
Buildings and improvements	5-40 years
Equipment	5-17 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues in excess of (less than) expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Impairment of Long-Lived Assets

The Hospital considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. No impairment was identified for the years ended September 30, 2017 and 2016.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The deferred outflow of resources reported in the financial statements is deferred refunding costs which are amortized over the shorter of the remaining life of the refunded bonds or the refunding debt as a component of interest expense.

Bond Premium

Bonds payable are reported net of the applicable bond premium. Bond premiums are amortized over the life of the debt using a method that approximates the effective interest method. Amortization is included in interest expense.

Compensated Absences

The Hospital's employees earn paid time-off at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination. The liability for compensated absences is included with accrued salaries and wages in the accompanying financial statements.

Operating Revenues and Expenses

The Hospital's statements of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Hospital result from exchange transactions associated with providing health care services - the Hospital's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

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, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Hospital provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Hospital does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was $336,000 and $217,000 for the years ended September 30, 2017 and 2016, calculated by multiplying the ratio of cost to gross charges for the Hospital by the gross uncompensated charges associated with providing charity care to its patients.

Grants and Contributions

The Hospital may receive grants 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 for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after revenues in excess of expenses.

Electronic Health Record Incentives

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that demonstrate meaningful use of certified Electronic Health Records (EHR) technology.

To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. Once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The Hospital recognizes EHR incentive payments as revenue when there is reasonable assurance that the Hospital will comply with the conditions attached to the incentive payments. EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

The Hospital recognized revenue of $34,578 and $7,840 for the years ended September 30, 2017 and 2016 related to EHR incentive payments.

Reclassifications

Reclassifications have been made to the September 30, 2016 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net position.

Note 2 - Net Patient Service Revenue

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

Medicare: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through the year ended September 30, 2017. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services related to Medicaid beneficiaries are paid based on the lower of customary charges, allowable cost as determined through the Hospital's Medicare cost report, or rates as established by the Medicaid program. The Hospital is reimbursed at a tentative rate with final settlement determined by the program based on the Hospital's final Medicaid cost report. The Hospital's final Medicaid settlements have been processed through the year ended September 30, 2014.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other 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.

Concentration of gross revenues by major payor accounted for the following percentages of the Hospital's patient service revenues for the years ended September 30, 2017 and 2016:

	2017	2016
Medicare	52%	51%
Medicaid	9%	9%
Blue Cross and other commercial payors	34%	36%
Self pay and other	5%	4%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other 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.

Note 3 - Contributions Receivable

Contributions receivable held by the Foundation consist of the following at September 30, 2017 and 2016:

	2017	2016
Current contributions receivable	$ 106,382	$ 106,382
Amounts receivable in one to five years	404,253	510,635
Contributions receivable, net	$ 510,635	$ 617,017

At September 30, 2017 and 2016, the contributions receivable consisted entirely of amounts related to the private foundation grant discussed further in Note 7.

Note 4 - Deposits and Investments

The carrying amounts of deposits and investments as of September 30, 2017 and 2016 are as follows:

	2017	2016
Carrying Amount		
Cash and deposits	$ 7,963,957	$ 7,958,601
Investments	926,674	5,789,498
Total	$ 8,890,631	$ 13,748,099

Deposits and investments are reported in the following statement of net position captions:

	2017	2016
Cash and cash equivalents	$ 7,250,439	$ 6,856,042
Investments in certificates of deposits	926,674	919,118
Internally designated	-	4,870,380
Restricted for debt service	713,518	1,102,559
	$ 8,890,631	$ 13,748,099

Deposits - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Hospital's deposits may not be returned to it. The Hospital does not have a policy restricting the amount of deposits and investments subject to custodial credit risk. The amount of deposits not covered by FDIC, NCUA insurance or collateralized as of September 30, 2017 and 2016 was $7,014,685 and $7,057,068, respectively.

Investments

The Hospital's investments are reported at fair value. The Hospital had the following investments and maturities at September 30, 2017 and 2016:

	2017			
			Investment Maturities (in Years)	
	S&P Rating	Fair Value	Less than One	One to Five
Certificates of deposit	Not rated	$ 926,674	$ 497,243	$ 429,431

	2016			
			Investment Maturities (in Years)	
	S&P Rating	Fair Value	Less than One	One to Five
Government bond mutual funds	AAAm	$ 4,870,380	$ 4,870,380	$ -
Certificates of deposit	Not rated	919,118	682,632	236,486
		$ 5,789,498	$ 5,553,012	$ 236,486

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk

The Hospital will limit credit risk, the risk of loss due to the failure of the security issuer or backer, by diversifying in the investment portfolio so that potential losses on individual securities will be minimized. The Hospital does not have a formally adopted investment policy for managing concentration of credit risk. However, more than 5% of the Hospital's investments are invested in the following securities:

	2017	2016
Bankunited Natl Assn CD	16%	-
Ally Bank CD	11%	-
Wells Fargo Bank NA CD	11%	-
Medallion Bank CD	11%	-
ZB NA CD	11%	-
Capital One BK USA NA CD	10%	-
Webbank CD	9%	-
Ally Bank CD	8%	-
State Bank of India CD	8%	-
Ally Bank CD	6%	-
JP Morgan US Treasury	-	85%

Investment Income

Investment income, primarily interest income, for the years ended September 30, 2017 and 2016 was $21,761 and $9,483, respectively.

Fair Value

The Hospital has determined the fair value of certain investments in accordance with generally accepted accounting principles, which provides a framework for measuring fair value. A hierarchy of valuation classifications considers whether the inputs used in valuation techniques are observable or unobservable. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy prioritizes the valuation inputs into the following three broad levels:

Level 1 – Unadjusted quoted prices for identical instruments in active markets that the reporting entity has the ability to access at the measurement date.

Level 2 – Quoted prices for similar investments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are directly or indirectly observable. Examples would be matrix pricing, market corroborated pricing and inputs such as yield curves and indices.

Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable and may rely on the reporting entity's own assumptions, but the market participant's assumptions may be used in pricing the asset.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy, in which case the Hospital defaults to the lowest level input that is significant to the fair value measurement in its entirety. These levels are not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the Hospital performed a detailed analysis of the assets that are subject to fair value measurement.

Investments' fair value measurements are as follows at September 30, 2017 and 2016:

Government bond mutual funds: valued using quoted market prices.

Certificates of deposit: investments in traded certificates of deposit, which are reported in concurrent investments, are based on quoted market prices for identical investments in an inactive market or similar investments in markets that are either active or inactive.

As of September 30, 2017:

	Fair Value Measurements Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments at Fair Value			
Certificates of Deposit	$ -	$ 926,674	$ -

As of September 30, 2016:

	Fair Value Measurements Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments at Fair Value			
Government bond mutual funds	$ 4,870,380	$ -	$ -
Certificates of Deposit	-	919,118	-
	$ 4,870,380	$ 919,118	$ -

Yellowstone Insurance Exchange

The Hospital participates in the Yellowstone Insurance Exchange, RRG (Yellowstone), a risk retention group with other hospitals to provide liability insurance, reinsurance and risk management services to its members. The Hospital has an approximate 3% interest in Yellowstone. As of September 30, 2017 and 2016, the Hospital had an investment of $330,730 and $307,890, respectively. All profits and losses from the operation of Yellowstone are allocated by the Subscriber Advisory Committee based on premiums paid, exposure rates, and ownership level. For financial reporting purposes, the Hospital accounts for its investment in Yellowstone under the equity method of accounting. The Hospital's share of income or loss from this venture is reported as an increase or decrease in the respective investment with a corresponding amount reported in investment income.

Summarized financial information for Yellowstone (audited) as of and for the years ended, September 30, 2017 2016 and 2015, is as follows:

	2016	2015
Total assets	$ 21,468,818	$ 20,644,076
Total liabilities	$ 12,360,444	$ 12,658,090
Total equity	$ 9,108,374	$ 7,985,986
Total revenues	$ 5,395,366	$ 4,192,287
Total income	$ 1,267,897	$ 2,085,762

Note 5 - Capital Assets

Capital assets additions, retirements, transfers and balances for the year ended September 30, 2017 are as follows:

	Balance September 30, 2016, as restated	Additions	Transfers and Retirements	Balance September 30, 2017
Capital assets not being depreciated				
Land	$ 1,037,717	$ -	$ -	$ 1,037,717
Construction in progress	3,240,534	4,477,029	(7,695,382)	22,181
Total capital assets not being depreciated	$ 4,278,251	$ 4,477,029	$ (7,695,382)	$ 1,059,898
Capital assets being depreciated				
Land improvements	$ 189,383	$ -	$ 211,217	$ 400,600
Building and improvements	10,645,118	-	6,488,670	17,133,788
Equipment	8,543,237	-	995,495	9,538,732
Total capital assets being depreciated	19,377,738	$ -	$ 7,695,382	27,073,120
Less accumulated depreciation for				
Land improvements	122,095	$ 31,044	$ -	153,139
Building and improvements	3,582,888	544,894	-	4,127,782
Equipment	6,088,517	886,763	-	6,975,280
Total accumulated depreciation	9,793,500	$ 1,462,701	$ -	11,256,201
Net capital assets being depreciated	$ 9,584,238			$ 15,816,919
Capital assets, net	$ 13,862,489			$ 16,876,817

Construction in progress at September 30, 2017 represents the lighting for the new OB room. The estimated cost to complete this project is $4,000, with construction commitments of $6,222 for the lights as of September 30, 2017, which will be financed with Hospital funds.

Capital assets additions, retirements, transfers and balances for the year ended September 30, 2016 are as follows:

	Balance September 30, 2015	Additions	Transfers and Retirements	Balance September 30, 2016
Capital assets not being depreciated				
Land	$ 977,582	$ 60,135	$ -	$ 1,037,717
Construction in progress	173,572	3,099,196	(32,234)	3,240,534
Total capital assets not being depreciated	$ 1,151,154	$ 3,159,331	$ (32,234)	$ 4,278,251
Capital assets being depreciated				
Land improvements	$ 189,383	$ -	$ -	$ 189,383
Building and improvements	10,628,680	16,438	-	10,645,118
Equipment	8,065,730	647,385	(169,878)	8,543,237
Total capital assets being depreciated	18,883,793	$ 663,823	$ (169,878)	19,377,738
Less accumulated depreciation for				
Land improvements	110,442	$ 11,653	$ -	122,095
Building and improvements	3,276,856	306,032	-	3,582,888
Equipment	5,468,574	821,558	(201,615)	6,088,517
Total accumulated depreciation	8,855,872	$ 1,139,243	$ (201,615)	9,793,500
Net capital assets being depreciated	$ 10,027,921			$ 9,584,238
Capital assets, net	$ 11,179,075			$ 13,862,489

Note 6 - Lease Obligations

The Hospital leases certain equipment under a noncancelable long-term lease agreement which has been classified as a capitalized lease. Total rental and lease expense for the years ended September 30, 2017 and 2016 was $209,801 and $259,704, respectively. The capitalized leased assets consist of:

	2017	2016
Major movable equipment	$ 675,350	$ 675,350
Less accumulated amortization	(607,815)	(472,745)
	$ 67,535	$ 202,605

Minimum future lease payments for the capital lease are as follows:

Years Ending December 31,	Capital Leases
2018	$ 61,615
2019	-
2020	-
2021	-
2022	-
Total minimum lease payments	61,615
Less interest	(554)
Present value of minimum lease payments - Note 7	$ 61,061

Note 7 - Long-Term Debt

A schedule of changes in the Hospital's noncurrent liabilities consisted of the following amounts:

	Balance September 30, 2016	Additions	Payments	Balance September 30, 2017	Due Within One Year
Bonds Payable					
General Obligation Bonds					
2011	$ 6,395,000	$ -	$ 480,000	$ 5,915,000	$ 488,219
2011 bond premium	578,106	-	48,543	529,563	-
Medical office building payable	6,300,000	-	106,312	6,193,688	217,289
Total bonds	13,273,106	-	634,855	12,638,251	705,508
Capital lease obligations	203,906	-	142,845	61,061	61,061
Total long-term debt	$ 13,477,012	$ -	$ 777,700	$ 12,699,312	$ 766,569

	Balance September 30, 2015	Additions	Payments	Balance September 30, 2016	Due Within One Year
Bonds Payable					
General Obligation Bonds					
2011	$ 6,855,000	$ -	$ 460,000	$ 6,395,000	$ 480,000
2011 bond premium	631,063	-	52,957	578,106	-
Medical office building payable	-	6,300,000	-	6,300,000	106,313
Total bonds	7,486,063	6,300,000	512,957	13,273,106	586,313
Capital lease obligations	341,676	-	137,770	203,906	142,845
Total long-term debt	$ 7,827,739	$ 6,300,000	$ 650,727	$ 13,477,012	$ 729,158

General Obligation Bonds – General Obligation Refunding Bonds, Series 2011 (the Refunding Bonds), were issued by Lemhi County in the amount of $8,215,000. The bond proceeds were used to refund the Steele Memorial Hospital Project, General Obligation Bonds, Series 2003. Through September 2027, annual principal installments ranging from $490,000 to $705,000 are required, plus semiannual interest payments from 4% to 5%.

In conjunction with the bond issuance, the Board of Commissioners of Lemhi County and the Board of Trustees of the Hospital executed a Memorandum of Understanding (the Memorandum). The Memorandum states the debt service obligation on the bonds will be funded from four sources. Steele Memorial Hospital Benefit Association doing business as Steele Memorial Foundation (the Foundation), an Idaho nonprofit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, is the beneficiary of a $3,000,000 grant from another private foundation. The grant will be paid semiannually until July 2022, and the proceeds are to be used for the payment of the principal and interest of these bonds. The Hospital anticipates benefit of reimbursable depreciation and interest costs from the newly constructed facility and the corresponding bond interest costs on the Hospital's cost reports. The County and the Hospital have agreed that no more than 60% of this benefit may be used for debt service. Amounts from Hospital operations may be budgeted for debt service upon approval by the County. Lastly, the County shall levy and cause to be levied annually upon all taxable property within the limits of the County, in addition to all other authorized taxes and assessments, a tax or assessment sufficient to meet the debt service payments. Ultimately, the full faith and credit and all taxable property in Lemhi County are pledged as security on the Refunding Bonds.

Medical Office Building Payable

A revenue bond was issued by Zions Bank, dated April 14, 2016, in the amount of $6,300,000 under a lease with the Idaho Health Facilities Authority. The funds were used to build a new medical office for the Hospital. Through September 2027, semiannual principal and interest installments of $197,978 are required, including semiannual interest payments from 2.91% to 3.409%.

The Hospital's note payable includes financial covenants that must be complied with as a condition of the Medical Office Building Revenue Bond.

The Hospital has the option to purchase improvements and to terminate the lease term at any time. To exercise such option the Hospital shall give written notice to Idaho Health Facilities Authority and Zions Bank, which shall specify the date of closing the purchase. The date shall not be less than 45 days nor more than 90 days from the date such notice is mailed. The total purchase price shall be $1.

Scheduled debt service requirements for the Hospital's bonds payable are as follows:

	Bonds Payable		
Years Ending September 30,	Principal	Interest	Total
2018	$ 705,508	$ 429,067	$ 1,134,575
2019	733,658	403,098	1,136,756
2020	765,213	376,142	1,141,355
2021	791,961	347,994	1,139,955
2022	818,907	318,848	1,137,755
2023-2027	4,550,657	1,141,970	5,692,627
2028	3,742,784	396,929	4,139,713
Subtotal	12,108,688	$ 3,414,048	$ 15,522,736
Add bond premium	529,563		
	$ 12,638,251		

Note 8 - Employee Benefit Plan

The Hospital provides employees with the Steele Memorial Medical Center 457 Deferred Compensation Plan (the 457 Plan), a deferred compensation pension plan, for its benefit-eligible employees. Benefit terms, including contribution requirements, are established and may be amended by the Hospital. Employees are permitted to make contributions and earnings on those contributions. Employees are immediately vested in their own contributions and earnings on those contributions. The Hospital does not contribute to the 457 Plan.

The Hospital has profit-sharing plan under which employees become participants upon the completion of 12 months of creditable service. Discretionary employer contributions are deposited with the plan trustee who invests the plan assets. Total pension plan expense for the years ended September 30, 2017 and 2016 and 2015, and was approximately $171,000, $150,000 and $144,000, respectively.

Note 9 - Related Party Transactions

As discussed in Note 7, the Hospital receives funds from its discretely presented component unit, the Steele Memorial Foundation, to fund its bond payments, as well as contributions of funds for specified purposes and equipment. During the years ended September 30, 2017 and 2016, contributions from the Foundation for bond payments amounted to $125,000, respectively. Contributions for specified purposes and equipment amounted to $53,358 and $43,000, for the years ended September 30, 2017 and 2016, respectively.

Note 10 - Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at September 30, 2017 and 2016 was as follows:

	2017	2016
Medicare	30%	15%
Medicaid	5%	3%
Commercial insurance	40%	53%
Other third-party payors and patients	25%	29%
	100%	100%

Note 11 - Contingencies and Commitments

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of or damage of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. A premium, based on previous experience, is paid each year for commercial insurance coverage purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Malpractice Insurance

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis through Yellowstone Insurance Exchange (the Exchange), a risk retention group. Claims are subject to a limit of $1 million per claim and an annual aggregate limit of $3 million. The Hospital has a $10,000 deductible requirement for each claim. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured. The Hospital, based upon information available has determined that no significant liability exists for potential losses incurred but not reported at September 30, 2017 and 2016.

Litigations, Claims, and Disputes

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Hospital.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient and resident services.

Commitment

The Hospital has a contract with Quorum Health Resources (QHR) for management and advisory services through March 2021. Under this contract, the Hospital has committed to reimburse QHR for salaries of approximately $346,000 per year through the contract.

Total payments to QHR for the management and advisory services for the years ended September 30, 2017 and 2016, were approximately $748,000 and $731,000, respectively.

Note 12 - Restatement

During 2017, the Hospital identified misstatements related to the 2016 financial statements. The Hospital restated its finance statements to present financial information for its discretely presented component unit, the Steele Memorial Foundation, which includes the Statement of Net Position and Statement of Activities. In addition, the Hospital restated its capitalized assets not being depreciated and accounts payable related to construction in process.

The effects of these restatements are seen in the table below:

	2016		
	As previously reported	Adjustment	As Restated
Selected Statement of Net Position Data as of September 30, 2016			
Capital assets, net	$ 12,950,265	$ 912,224	$ 13,862,489
Total assets and deferred outflows of resources	$ 32,423,154	$ 912,224	$ 33,335,378
Current Liabilities			
Accounts payable			
Construction	$ -	$ 912,224	$ 912,224
Total current liabilities	2,596,590	912,224	3,508,814
Total liabilities	15,344,444	912,224	16,256,668
Net Position			
Net investment in capital assets	4,321,566	(1,671,815)	2,649,751
Restricted			
Expendable for debt service	693,908	(71,349)	622,559
Expendable for capital acquisition	-	3,094,492	3,094,492
Unrestricted	12,063,236	(1,351,328)	10,711,908
Total net position	17,078,710	-	17,078,710
Total liabilities and net position	$ 32,423,154	$ 912,224	$ 33,335,378
Selected Statement of Cash Flows Data as of September 30, 2016			
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities			
Accounts payable for construction and equipment	$ -	$ 912,224	$ 912,224

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*

To the Board of Directors
Steele Memorial Medical Center
Salmon, Idaho

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 Steele Memorial Medical Center (the Hospital) and its discretely presented component unit as of and for the year ended September 30, 2017, 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 23, 2018.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the following deficiency in the Hospital's internal control to be a material weakness:

- *2017-1 Financial Statement Preparation and Restatement*

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.

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 amounts. 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 responses to the findings identified in our audit are 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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Boise, Idaho
January 23, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

2017 – 1 Financial Statement Preparation and Restatement

Criteria – The internal control structure should include procedures to ensure management prepare their own financial statements and include all transactions in accordance with generally accepted accounting principles (GAAP).

Condition – As auditors, we were requested to prepare the financial statements and footnote disclosure. This circumstance is not unusual in an organization of this size, due to time constraints of management and costs associated with the preparation. Two adjustments were made to the prior year financial statements related to the inclusion of the foundation as a discretely presented component unit and construction in process that was completed in fiscal year 2016 that was not properly recorded.

Cause – The controls currently in place were not sufficient to ensure management is able to prepare their own financial statements and identify material misstatements.

Effect – As auditors, we were required to prepare the financial statements and footnote disclosure, and we identified material misstatements in the prior year financial statements that resulted in a restatement of the 2016 financial statements.

Recommendation - Management and those charged with governance should annually review whether to accept the degree of risk associated with this condition because of cost or other considerations and identify all material transactions.

Management's Response – We agree with the findings and will implement the proper procedures to ensure this is managed correctly in the future. The following is a summary of our corrective action plan.

Corrective Action Plan (CAP)

Actions Planned in Response to Finding –We will annually review whether to accept the degree of risk associated with this condition.

Explanation of Disagreement – We concur with the finding.

Official Responsible for Ensuring Corrective Action – Chief Financial Officer.

Planned Completion for Corrective Action – This will be an ongoing annual decision prepared by Administration.

Plan to Monitor Completion of Corrective Action –The Board of Directors will annually review Administration's decision about whether to prepare the financial statements.