

**Steele Memorial Medical Center  
A Component Unit of  
Lemhi County, Idaho**

Basic Financial Statements and  
Independent Auditors' Reports

September 30, 2016 and 2015

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
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DINGUS | ZARECOR & ASSOCIATES PLLC  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Steele Memorial Medical Center  
A Component Unit of Lemhi County, Idaho  
Salmon, Idaho

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Steele Memorial Medical Center, a component unit of Lemhi County, Idaho (the Hospital), 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.

### **Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital, as of September 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 2 to the financial statements, the September 30, 2015, financial statements have been restated to correct third-party settlement estimates. Our opinion is not modified with respect to this restatement.

## **Other Matters**

### *Required Supplementary Information*

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 our report March 13, 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 for the year ended September 30, 2016. We issued a similar report for the year ended September 30, 2015, dated January 21, 2016, which has not been included with the 2016 financial and compliance report. The purpose of those reports 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. Those reports are 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.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
March 13, 2017

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Statements of Net Position**  
**September 30, 2016 and 2015**

| <b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>   | <b>2016</b>          | <b>2015</b>          |
|--|----------------------|----------------------|
| <i>Current assets</i>  |                      |                      |
| Cash and cash equivalents  | \$ 6,856,042         | \$ 6,400,550         |
| Investments in certificates of deposit   | 919,118              | 915,569              |
| Receivables:   |                      |                      |
| Patient, net of estimated uncollectibles of approximately<br>\$1,250,000 and \$1,412,000, respectively | 3,536,497            | 3,177,919            |
| Other  | 52,744               | 48,561               |
| Electronic health records incentive payment  | -                    | 84,565               |
| Estimated third-party payor settlements  | 171,842              | 398,081              |
| Cash and cash equivalents restricted for debt service  | 480,000              | 460,000              |
| Inventories  | 852,006              | 762,012              |
| Prepaid expenses   | 315,425              | 306,074              |
| Total current assets   | <b>13,183,674</b>    | 12,553,331           |
| <i>Noncurrent assets</i>   |                      |                      |
| Cash and cash equivalents:   |                      |                      |
| Restricted for capital acquisitions  | -                    | 184,424              |
| Restricted for debt service  | 213,908              | 207,896              |
| Board designated for capital acquisitions  | 408,651              | 1,318,888            |
| Investments restricted for construction project  | 4,870,380            | -                    |
| Investment in Yellowstone Insurance Exchange   | 307,890              | 261,697              |
| Capital assets, net  | 12,950,265           | 11,179,075           |
| Total noncurrent assets  | <b>18,751,094</b>    | 13,151,980           |
| Total assets   | <b>31,934,768</b>    | 25,705,311           |
| <i>Deferred outflows of resources, deferred charge on debt refunding</i>                               | <b>488,386</b>       | 533,125              |
| <b>Total assets and deferred outflows of resources</b>   | <b>\$ 32,423,154</b> | <b>\$ 26,238,436</b> |

*See accompanying notes to basic financial statements.*

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Statements of Net Position (Continued)**  
**September 30, 2016 and 2015**

| <b>LIABILITIES AND NET POSITION</b>            | <b>2016</b>          | <b>2015</b>          |
|--|----------------------|----------------------|
| <i>Current liabilities</i>                     |                      |                      |
| Current maturities of long-term debt           | \$ 729,158           | \$ 597,770           |
| Accounts payable                               | 826,574              | 988,163              |
| Estimated third-party payor settlements        | 52,000               | 196,000              |
| Accrued expenses:                              |                      |                      |
| Payroll and related liabilities                | 966,791              | 1,084,320            |
| Interest                                       | 22,067               | 23,217               |
| Total current liabilities                      | <b>2,596,590</b>     | 2,889,470            |
| <i>Long-term debt, less current maturities</i> | <b>12,747,854</b>    | 7,229,969            |
| Total liabilities                              | <b>15,344,444</b>    | 10,119,439           |
| <i>Net position</i>                            |                      |                      |
| Net investment in capital assets               | 4,321,566            | 3,512,543            |
| Restricted for debt service                    | 693,908              | 667,896              |
| Unrestricted, restated                         | 12,063,236           | 11,938,558           |
| Total net position, restated                   | <b>17,078,710</b>    | 16,118,997           |
| <b>Total liabilities and net position</b>      | <b>\$ 32,423,154</b> | <b>\$ 26,238,436</b> |

*See accompanying notes to basic financial statements.*

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended September 30, 2016 and 2015**

|   | 2016                 | 2015                 |
|---|----------------------|----------------------|
| <i>Operating revenues</i>   |                      |                      |
| Net patient revenue, net of provision for bad debts<br>of \$838,136 and \$1,062,314, respectively | \$ 22,634,588        | \$ 23,001,942        |
| Electronic health records incentive payment   | 7,840                | 37,666               |
| Other   | 183,054              | 168,401              |
| <b>Total operating revenues</b>   | <b>22,825,482</b>    | <b>23,208,009</b>    |
| <i>Operating expenses</i>   |                      |                      |
| Salaries and wages  | 7,933,155            | 7,731,291            |
| Employee benefits   | 1,913,398            | 1,919,379            |
| Purchased services  | 4,284,524            | 4,050,008            |
| Supplies  | 4,748,990            | 4,127,832            |
| Leases and rent   | 259,704              | 251,436              |
| Repairs and maintenance   | 336,688              | 373,541              |
| Utilities   | 193,726              | 200,373              |
| Depreciation and amortization   | 1,139,243            | 1,107,436            |
| Insurance   | 254,465              | 260,144              |
| Travel, dues, and education   | 351,770              | 324,732              |
| Other   | 681,582              | 584,595              |
| <b>Total operating expenses</b>   | <b>22,097,245</b>    | <b>20,930,767</b>    |
| <i>Operating income</i>   | <b>728,237</b>       | <b>2,277,242</b>     |
| <i>Nonoperating revenue (expense)</i>   |                      |                      |
| Interest income   | 9,483                | 17,439               |
| Lemhi County appropriation  | 407,937              | 406,363              |
| Gain (loss) on investment in Yellowstone Insurance Exchange                                       | 61,645               | (3,471)              |
| Grants  | 39,130               | 16,196               |
| Interest expense  | (454,719)            | (293,722)            |
| <b>Total nonoperating revenue, net</b>  | <b>63,476</b>        | <b>142,805</b>       |
| Excess of revenues over expenses before<br>capital contributions                                  | <b>791,713</b>       | <b>2,420,047</b>     |
| <i>Capital contributions</i>  | <b>168,000</b>       | <b>202,225</b>       |
| Change in net position  | <b>959,713</b>       | <b>2,622,272</b>     |
| Net position, beginning of year, restated   | <b>16,118,997</b>    | <b>13,496,725</b>    |
| <b>Net position, end of year, restated</b>  | <b>\$ 17,078,710</b> | <b>\$ 16,118,997</b> |

See accompanying notes to basic financial statements.

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Statements of Cash Flows**  
**Years Ended September 30, 2016 and 2015**

|  | 2016                | 2015                |
|--|---------------------|---------------------|
| <i>Increase (Decrease) in Cash and Cash Equivalents</i>                              |                     |                     |
| <i>Cash flows from operating activities</i>  |                     |                     |
| Receipts from and on behalf of patients  | \$ 22,358,249       | \$ 23,244,052       |
| Receipts from electronic health records incentive payment                            | 92,405              | 997,877             |
| Payments to and on behalf of employees   | (9,964,082)         | (9,549,329)         |
| Payments to suppliers and contractors  | (11,372,383)        | (10,728,004)        |
| Other receipts   | 179,368             | 168,401             |
| Net cash provided by operating activities  | <b>1,293,557</b>    | 4,132,997           |
| <i>Cash flows from noncapital financing activities</i>                               |                     |                     |
| Receipts from grants   | 39,130              | 16,196              |
| Net cash provided by noncapital financing activities                                 | <b>39,130</b>       | 16,196              |
| <i>Cash flows from capital and related financing activities</i>                      |                     |                     |
| Lemhi County appropriations  | 407,937             | 406,363             |
| Contributions from Foundation  | 168,000             | 202,225             |
| Proceeds on issuance of long-term debt   | 6,300,000           | -                   |
| Principal paid on long-term debt   | (650,727)           | (587,876)           |
| Interest on long-term debt   | (411,130)           | (302,700)           |
| Purchase of property and equipment   | (2,910,930)         | (549,754)           |
| Net cash provided by (used in) capital and related financing activities              | <b>2,903,150</b>    | (831,742)           |
| <i>Cash flows from investing activities</i>  |                     |                     |
| Purchases of investments   | (5,301,781)         | (359,164)           |
| Proceeds from sale of investments  | 427,852             | 348,393             |
| Distribution of surplus capital from investment<br>in Yellowstone Insurance Exchange | 15,452              | 9,776               |
| Interest received  | 9,483               | 17,439              |
| Net cash provided by (used in) investing activities                                  | <b>(4,848,994)</b>  | 16,444              |
| Net increase (decrease) in cash and cash equivalents                                 | <b>(613,157)</b>    | 3,333,895           |
| Cash and cash equivalents, beginning of year   | <b>8,571,758</b>    | 5,237,863           |
| <b>Cash and cash equivalents, end of year</b>  | <b>\$ 7,958,601</b> | <b>\$ 8,571,758</b> |

*See accompanying notes to basic financial statements.*

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Statements of Cash Flows (Continued)**  
**Years Ended September 30, 2016 and 2015**

|   | 2016                | 2015                |
|---|---------------------|---------------------|
| <i>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</i>           |                     |                     |
| Cash and cash equivalents in current assets:  |                     |                     |
| Cash and cash equivalents   | \$ 6,856,042        | \$ 6,400,550        |
| Restricted for debt service   | 480,000             | 460,000             |
| Cash and cash equivalents in noncurrent assets:   |                     |                     |
| Restricted for capital acquisitions   | -                   | 184,424             |
| Restricted for debt service   | 213,908             | 207,896             |
| Board designated for capital acquisitions   | 408,651             | 1,318,888           |
| <b>Total cash and cash equivalents</b>  | <b>\$ 7,958,601</b> | <b>\$ 8,571,758</b> |
| <i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i>        |                     |                     |
| Operating income  | \$ 728,237          | \$ 2,277,242        |
| <i>Adjustments to reconcile operating income to net cash provided by operating activities</i> |                     |                     |
| Depreciation and amortization   | 1,139,243           | 1,107,436           |
| Provision for bad debts   | 838,136             | 1,062,314           |
| Decrease (increase) in assets:  |                     |                     |
| Receivables:  |                     |                     |
| Patient accounts, net   | (1,196,714)         | (817,182)           |
| Other   | (3,686)             | (15,792)            |
| Electronic health record incentive payment  | 84,565              | 960,211             |
| Estimated third-party payor settlements   | 226,239             | 318,919             |
| Inventories   | (89,994)            | (60,704)            |
| Prepaid expenses  | (9,351)             | (40,927)            |
| Increase (decrease) in liabilities:   |                     |                     |
| Accounts payable  | (161,589)           | (453,712)           |
| Estimated third-party payor settlements   | (144,000)           | (321,941)           |
| Accrued payroll and related liabilities   | (117,529)           | 117,133             |
| <b>Net cash provided by operating activities</b>  | <b>\$ 1,293,557</b> | <b>\$ 4,132,997</b> |

*See accompanying notes to basic financial statements.*

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Notes to Basic Financial Statements**  
**Years Ended September 30, 2016 and 2015**

**1. Reporting Entity and Summary of Significant Accounting Policies:**

**a. Reporting Entity**

Steele Memorial Medical Center (the Hospital) operates an 18-bed critical access hospital and rural health clinic in Salmon, Idaho. The Board of County Commissioners of Lemhi County, Idaho (the County) appoints the Hospital Board of Directors, and the Hospital may not issue debt without the County's approval. For this reason, the Hospital is considered to be a component unit of the County. As organized, the Hospital is exempt from payment of federal and state income taxes.

**b. Summary of Significant Accounting Policies**

*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.

*Enterprise fund accounting* – The Hospital's accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

*Cash and cash equivalents* – Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

*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.

*Property and equipment* – 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 property and equipment are as follows:

|                           |               |
|---------------------------|---------------|
| Building and improvements | 5 to 40 years |
| Land improvements         | 8 to 12 years |
| Major movable equipment   | 3 to 20 years |

*Compensated absences* – The Hospital's employees earn paid time off at varying rates depending on years of service. Employees are allowed to accrue a maximum of one and one half year's accrual. Paid time off is expensed when earned by employees. Employees also earn extended illness bank benefits based on a standard accrual rate per hour worked up to a 300 hour maximum in bank. Unused extended illness bank hours are not paid out upon termination of employment. Extended illness benefits are expensed when taken.

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2016 and 2015**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued)**

*Net position* – Net position of the Hospital is classified into three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and deferred financing costs, reduced by current balances of any outstanding balances used to finance the purchase or construction of those assets. Restricted net position is net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by bond indentures. Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets, net of related debt or restricted.

*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, including grants for specific operating activities associated with providing healthcare services — the Hospital’s primary activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital acquisition, are reported as other nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

*Restricted resources* – When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital’s policy to use restricted resources before unrestricted resources.

*Grants and contributions* – From time to time, the Hospital receives grants from the state of Idaho and others, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when eligibility requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. Grants that are used for specific projects or purposes related to the Hospital’s operating activities are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

*Change in accounting policies* – GASB Statement No.72, *Fair Value Measurements and Application*, is effective for years beginning after June 15, 2015 (fiscal year ended September 30, 2016, for the Hospital). The statement establishes new requirements on how fair value should be measured, which assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. The adoption of this statement has no impact on change in net position.

*Reclassifications* – Certain reclassifications of the 2015 amounts have been made in the financial statements in order to conform to the 2016 presentation. These reclassifications had no effect on the previously reported change in net position.

*Subsequent events* – The Hospital has evaluated subsequent events through March 13, 2017, the date on which the financial statements were available to be issued.

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2016 and 2015**

**2. Prior Period Adjustment:**

The Hospital has recorded a prior period adjustment to correct third-party payor settlements. As a result, the Hospital's net position has been restated to reflect this change.

The effect of the prior period adjustment is as follows:

|   |                      |
|---|----------------------|
| Net position, September 30, 2015, previously stated | 16,219,997           |
| Correction of estimated third-party settlements     | (101,000)            |
| <hr/>   |                      |
| <b>Net position, September 30, 2015, restated</b>   | <b>\$ 16,118,997</b> |

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2016 and 2015**

**3. Bank Deposits and Investments:**

**Fair Value** – The Hospital categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Hospital has the following recurring fair value measurements as of September 30, 2016:

- Government bound mutual funds of \$4,870,380 are valued using quoted market prices (Level 1 inputs).
- Certificates of deposit of \$919,118 are valued using the market approach based on current market interest rates for similar investments (Level 2 inputs).

The Hospital's investments are as follows:

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

  

|                         | S&P<br>Rating | Fair<br>Value     | 2015                             |                   |
|-------------------------|---------------|-------------------|----------------------------------|-------------------|
|                         |               |                   | Investment Maturities (in Years) |                   |
|                         |               |                   | Less Than<br>One                 | One to<br>Five    |
| Certificates of deposit | Not rated     | \$ 915,569        | \$ 740,414                       | \$ 175,155        |
|                         |               | <b>\$ 915,569</b> | <b>\$ 740,414</b>                | <b>\$ 175,155</b> |

**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 believes that its interest rate risk is minimal.

**Custodial credit risk** – Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Hospital believes that there is minimal custodial credit risk with their investments at this time. The Hospital management monitors the entities which hold the various investments to ensure they remain in good standing.

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2016 and 2015**

**4. Patient Accounts Receivable:**

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Hospital's allowance for uncollectible accounts for self-pay patients has not changed significantly from the prior year's. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets by the Hospital consisted of these amounts:

|  | <b>2016</b>         | <b>2015</b>         |
|--|---------------------|---------------------|
| Receivables from patients and their insurance carriers | \$ 3,579,133        | \$ 3,476,262        |
| Receivables from Medicare                              | 1,012,102           | 993,745             |
| Receivables from Medicaid                              | 195,698             | 119,712             |
| Total patient accounts receivable                      | <b>4,786,933</b>    | 4,589,719           |
| Less allowance for uncollectible accounts              | <b>1,250,436</b>    | 1,411,800           |
| <b>Patient accounts receivable, net</b>                | <b>\$ 3,536,497</b> | <b>\$ 3,177,919</b> |

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2016 and 2015**

**5. Capital Assets:**

Capital asset additions, retirements, transfers, and balances were as follows:

|  | Balance<br>September 30,<br>2015 | Additions           | Retirements     | Transfers   | Balance<br>September 30,<br>2016 |
|--|----------------------------------|---------------------|-----------------|-------------|----------------------------------|
| <i>Capital assets not being depreciated</i>        |                                  |                     |                 |             |                                  |
| Land   | \$ 977,582                       | \$ 60,135           | \$ -            | \$ -        | \$ 1,037,717                     |
| Construction in progress                           | 173,572                          | 2,186,972           | -               | (32,234)    | 2,328,310                        |
| Total capital assets not being depreciated         | 1,151,154                        | 2,247,107           | -               | (32,234)    | 3,366,027                        |
| <i>Capital assets being depreciated</i>            |                                  |                     |                 |             |                                  |
| Buildings and improvements                         | 10,628,680                       | 16,438              | -               | -           | 10,645,118                       |
| Land improvements                                  | 189,383                          | -                   | -               | -           | 189,383                          |
| Major movable equipment                            | 8,065,730                        | 647,385             | (202,112)       | 32,234      | 8,543,237                        |
| Total capital assets being depreciated             | 18,883,793                       | 663,823             | (202,112)       | 32,234      | 19,377,738                       |
| <i>Less accumulated depreciation for</i>           |                                  |                     |                 |             |                                  |
| Buildings and improvements                         | 3,276,856                        | 306,032             | -               | -           | 3,582,888                        |
| Land improvements                                  | 110,442                          | 11,653              | -               | -           | 122,095                          |
| Major movable 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                        |
| <i>Total capital assets being depreciated, net</i> | 10,027,921                       | (475,420)           | (497)           | 32,234      | 9,584,238                        |
| <b>Capital assets, net</b>                         | <b>\$ 11,179,075</b>             | <b>\$ 1,771,687</b> | <b>\$ (497)</b> | <b>\$ -</b> | <b>\$ 12,950,265</b>             |

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2016 and 2015**

**5. Capital Assets (continued):**

Capital asset additions, retirements, transfers, and balances were as follows:

|  | Balance<br>September 30,<br>2014 | Additions           | Retirements | Transfers   | Balance<br>September 30,<br>2015 |
|--|----------------------------------|---------------------|-------------|-------------|----------------------------------|
| <i>Capital assets not being depreciated</i>        |                                  |                     |             |             |                                  |
| Land   | \$ 958,744                       | \$ 18,838           | \$ -        | \$ -        | \$ 977,582                       |
| Construction in progress                           | 199,328                          | -                   | -           | (25,756)    | 173,572                          |
| Total capital assets not being depreciated         | 1,158,072                        | 18,838              | -           | (25,756)    | 1,151,154                        |
| <i>Capital assets being depreciated</i>            |                                  |                     |             |             |                                  |
| Buildings and improvements                         | 10,425,015                       | 203,665             | -           | -           | 10,628,680                       |
| Land improvements                                  | 189,383                          | -                   | -           | -           | 189,383                          |
| Major movable equipment                            | 7,712,723                        | 327,251             | -           | 25,756      | 8,065,730                        |
| Total capital assets being depreciated             | 18,327,121                       | 530,916             | -           | 25,756      | 18,883,793                       |
| <i>Less accumulated depreciation for</i>           |                                  |                     |             |             |                                  |
| Buildings and improvements                         | 2,977,697                        | 299,159             | -           | -           | 3,276,856                        |
| Land improvements                                  | 98,565                           | 11,877              | -           | -           | 110,442                          |
| Major movable equipment                            | 4,672,174                        | 796,400             | -           | -           | 5,468,574                        |
| Total accumulated depreciation                     | 7,748,436                        | 1,107,436           | -           | -           | 8,855,872                        |
| <i>Total capital assets being depreciated, net</i> | 10,578,685                       | (576,520)           | -           | 25,756      | 10,027,921                       |
| <b>Capital assets, net</b>                         | <b>\$ 11,736,757</b>             | <b>\$ (557,682)</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 11,179,075</b>             |

Significant construction in progress as of September 30, 2016, consisted of the construction of a new medical office building. The estimated cost of the project is \$7,000,000. The Hospital is borrowing \$6,500,000 and funding the remaining \$500,000 from reserves. The estimated cost to complete the project as of September 30, 2016, was approximately \$4,800,000 with an estimated completion date of February 2017.

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2016 and 2015**

**6. Long-term Debt:**

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

|                                      | Balance<br>September 30,<br>2015 | Additions           | Reductions          | Balance<br>September 30,<br>2016 | Amounts<br>Due Within<br>One Year |
|--------------------------------------|----------------------------------|---------------------|---------------------|----------------------------------|-----------------------------------|
| 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 revenue bond | -                                | 6,300,000           | -                   | 6,300,000                        | 106,313                           |
| Capital lease obligations            | 341,676                          | -                   | (137,770)           | 203,906                          | 142,845                           |
| <b>Total long-term debt</b>          | <b>\$ 7,827,739</b>              | <b>\$ 6,300,000</b> | <b>\$ (650,727)</b> | <b>\$ 13,477,012</b>             | <b>\$ 729,158</b>                 |

|                             | Balance<br>September 30,<br>2014 | Additions   | Reductions          | Balance<br>September 30,<br>2015 | Amounts<br>Due Within<br>One Year |
|-----------------------------|----------------------------------|-------------|---------------------|----------------------------------|-----------------------------------|
| General obligation bonds:   |                                  |             |                     |                                  |                                   |
| 2011                        | \$ 7,310,000                     | \$ -        | \$ (455,000)        | \$ 6,855,000                     | \$ 460,000                        |
| 2011 bond premium           | 684,019                          | -           | (52,956)            | 631,063                          | -                                 |
| Capital lease obligations   | 474,552                          | -           | (132,876)           | 341,676                          | 137,770                           |
| <b>Total long-term debt</b> | <b>\$ 8,468,571</b>              | <b>\$ -</b> | <b>\$ (640,832)</b> | <b>\$ 7,827,739</b>              | <b>\$ 597,770</b>                 |

**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 \$480,000 to \$705,000 are required, plus semiannual interest payments from 3% 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.

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2016 and 2015**

**6. Long-term Debt (continued):**

*Medical office building revenue bond* – 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 (IFHA). The bond was used to build a new medical office. Through September 2027, semiannual principal and interest installments ranging from \$91,665 to \$197,978 are required, plus semiannual interest payments from 2.91% to 3.409%.

The Hospital’s revenue bond 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 the IFHA 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.

*Capital lease obligations* – Capitalized lease obligations include imputed interest rates of 3.6%, secured by leased assets. The lease obligations are reflected in the Hospital’s assets and liabilities. The assets acquired under the capital lease had a capitalized cost of \$675,350 and accumulated amortization of \$472,745 and \$337,675 as of September 30, 2016 and 2015, respectively.

Scheduled principal and interest repayments on the general obligation bonds are as follows:

| Years Ending<br>September 30, | Bonds               |                     |                     |
|-------------------------------|---------------------|---------------------|---------------------|
|                               | Principal           | Interest            | Total               |
| 2017                          | \$ 480,000          | \$ 264,800          | \$ 744,800          |
| 2018                          | 490,000             | 250,400             | 740,400             |
| 2019                          | 510,000             | 230,800             | 740,800             |
| 2020                          | 535,000             | 210,400             | 745,400             |
| 2021                          | 555,000             | 189,000             | 744,000             |
| 2022-2026                     | 3,120,000           | 594,400             | 3,714,400           |
| 2027                          | 705,000             | 35,250              | 740,250             |
|                               | <b>\$ 6,395,000</b> | <b>\$ 1,775,050</b> | <b>\$ 8,170,050</b> |

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2016 and 2015**

**6. Long-term Debt (continued):**

Scheduled principal and interest repayments on the Medical Office Building Revenue Bond are as follows:

| <b>Years Ending<br/>September 30,</b> | <b>Medical Office Building Revenue Bond</b> |                     |                     |
|---------------------------------------|---|---------------------|---------------------|
|                                       | <b>Principal</b>                            | <b>Interest</b>     | <b>Total</b>        |
| 2017                                  | \$ 106,313                                  | \$ 183,330          | \$ 289,643          |
| 2018                                  | 217,288                                     | 178,667             | 395,955             |
| 2019                                  | 223,658                                     | 172,298             | 395,956             |
| 2020                                  | 230,213                                     | 165,742             | 395,955             |
| 2021                                  | 236,961                                     | 158,994             | 395,955             |
| 2022-2026                             | 1,282,850                                   | 696,927             | 1,979,777           |
| 2027-2031                             | 4,002,717                                   | 531,170             | 4,533,887           |
|                                       | <b>\$ 6,300,000</b>                         | <b>\$ 2,087,128</b> | <b>\$ 8,387,128</b> |

Scheduled principal and interest repayments on capital lease obligations are as follows:

| <b>Years Ending<br/>September 30,</b> | <b>Capital Lease Obligations</b> |                 |                   |
|---------------------------------------|----------------------------------|-----------------|-------------------|
|                                       | <b>Principal</b>                 | <b>Interest</b> | <b>Total</b>      |
| 2017                                  | \$ 142,845                       | \$ 5,031        | \$ 147,876        |
| 2018                                  | 61,061                           | 554             | 61,615            |
|                                       | <b>\$ 203,906</b>                | <b>\$ 5,585</b> | <b>\$ 209,491</b> |

**7. Line of Credit:**

The Hospital canceled their line of credit with Wells Fargo in the year ended September 30, 2016. There were no draws or payments associated with this loan during the year and no balance outstanding at year end.

**8. Net Patient Service Revenue:**

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. The Hospital's provisions for bad debts and writeoffs have not changed significantly from the prior year. The Hospital has not changed their charity care policy during fiscal years 2016 or 2015.

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2016 and 2015**

**8. Net Patient Service Revenue (continued):**

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

|   | <b>2016</b>          | <b>2015</b>          |
|---|----------------------|----------------------|
| Patient service revenue (net of contractual adjustments and discounts): |                      |                      |
| Medicare  | \$ 10,076,765        | \$ 10,140,521        |
| Medicaid  | 1,823,654            | 1,835,646            |
| Other third-party payors  | 10,383,660           | 10,777,855           |
| Patients  | 1,561,597            | 1,404,939            |
|   | <b>23,845,676</b>    | 24,158,961           |
| Less:   |                      |                      |
| Charity care  | 372,952              | 94,705               |
| Provision for bad debts   | 838,136              | 1,062,314            |
| <b>Net patient service revenue</b>                                      | <b>\$ 22,634,588</b> | <b>\$ 23,001,942</b> |

The Hospital has agreements with third-party payors that provide for 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 and Steele Memorial Clinic as a rural health clinic by Medicare and both are reimbursed for most inpatient, outpatient, and clinic services at cost with final settlement determined after submission of annual cost reports by the Hospital subject to audits thereof by the Medicare administrative contractor. Nonrural health clinic services are reimbursed on a fee schedule.
- *Medicaid* – Inpatient and outpatient services provided to Medicaid program beneficiaries are reimbursed under cost reimbursement methodologies 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 Medicaid program based on the Hospital’s final Medicare cost report.

The Hospital also has 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, fee schedule, and prospectively determined daily rates.

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2016 and 2015**

**8. Net Patient Service Revenue (continued):**

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. Net patient service revenue increased by approximately \$66,000 and \$39,000 in 2016 and 2015, respectively, due to differences between original estimates and final settlements or revised estimates.

The Hospital provides charity care to patients who are financially unable to pay for the healthcare services they receive. The Hospital's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the Hospital does not report these amounts in net operating revenues or in the allowance for doubtful accounts. The Hospital determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended September 30, 2016 and 2015, were approximately \$217,000 and \$54,000, respectively.

**9. Electronic Health Records Incentive Payment:**

The Hospital recognized Medicare and Medicaid electronic health records (EHR) incentive payments during the years ended September 30, 2016 and 2015. The EHR incentive payments are provided to incent hospitals to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue.

The Hospital recognizes the Medicare incentive payment on the date the Hospital has successfully complied with meaningful use criteria during the entire EHR reporting period. The Hospital attested to meaningful use Stage 2 with Medicare in December 2015. The Medicare EHR reporting period is through December 31 of each year.

The Medicare incentive payment recognized is an estimate and subject to audit by Centers for Medicare and Medicaid Services (CMS). The Medicare EHR incentive payment is based on the days and charity care reported in the Medicare cost report and the undepreciated cost of the EHR equipment submitted to CMS. Medicare incentive revenue of \$7,840 and \$12,853 was recognized in 2016 and 2015, respectively.

The Medicaid incentive payments are recognized in the year that certified EHR technology is adopted, implemented, or upgraded, or when such technology was meaningfully used under the Medicare EHR incentive program. The Hospital received the first Medicaid EHR incentive payment in the amount of \$267,392 during the year ended September 30, 2013. A second Medicaid EHR payment in the amount of \$213,913 was recognized during the year ended September 30, 2014. A third and final payment of \$53,478 will be recognized in a future period.

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2016 and 2015**

**10. 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. The 457 Plan is administered by Rudd & Company. Benefit terms, including contribution requirements, for the 457 Plan are established and may be amended by the Hospital. The Hospital does not contribute to the 457 Plan. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. Employees are immediately vested in their own contributions and earnings on those contributions. For the years ended September 30, 2016 and 2015, employee contributions totaled approximately \$310,000 and \$340,000, respectively.

The Hospital had no liability to the 457 Plan at September 30, 2016.

The Hospital provides employees with the Steele Memorial Hospital Profit Sharing Plan (the Plan), a profit sharing plan, for its benefit-eligible employees. The Plan is administered by the Hospital. Benefit terms, including contribution requirements, for the Plan are established and may be amended by the Hospital. Employees become vested in Hospital contributions and earnings on Hospital contributions after completion of 12 months of creditable service. Each employee's share is based on individual compensation as a percentage of total compensation, up to a 3% total match. For the years ended September 30, 2016 and 2015, Hospital contributions totaled approximately \$150,000 and \$144,000, respectively.

The Hospital had a liability to the Plan of approximately \$137,000 at September 30, 2016.

**11. Commitment:**

The Hospital has a contract with QHR for management and advisory services through March 2021. Compensation for salaries beginning April 2015 was approximately \$236,000 per year, which included \$120,000 designated as severance pay. This severance pay is refundable at the end of the contract term if unused. Under this contract, the Hospital has committed to pay approximately \$1,044,000, of which \$106,000 is refundable.

Total payments to QHR that include management fees, consulting engagements, and salaries and benefits pass-through for the years ended September 30, 2016 and 2015, were approximately, \$757,000 and \$780,000, respectively.

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2016 and 2015**

**12. Risk Management and Contingencies:**

***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, accident, and unemployment benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

***Medical malpractice claims*** – The Hospital has malpractice insurance coverage with Yellowstone Insurance Exchange (the Exchange) to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1,000,000 per claim and an annual limit of \$3,000,000. There is a \$10,000 deductible per claim. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

During the years ended September 30, 2016 and 2015, the Hospital made no capital contributions to the Exchange, a reciprocal risk retention group formed in the state of Vermont, pursuant to the Federal Liability Risk Retention Act of 1986, to help form a captive insurance company with several unrelated hospitals located in Idaho and other northwestern states. All profits and losses from the operation of the Exchange are allocated by the Exchange's Subscriber Advisory Committee, based on premiums paid, exposure rates, and ownership levels. For financial reporting purposes, the Hospital accounts for its investment in the Exchange under the equity method of accounting for investments in common stock. During the years ended September 30, 2016 and 2015, the Hospital received distributions of \$15,451 and \$9,777, respectively. During the years ended September 30, 2016 and 2015, the Hospital recorded a gain on investment in the amount of \$61,645 and a loss of \$3,471, respectively.

***Industry regulations*** – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions known or unasserted at this time.

***Litigation*** – The Hospital is occasionally involved in litigation arising in the course of business. Management estimates that these matters will be resolved without a material adverse effect on the Hospital's future financial position or results of operations.

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2016 and 2015**

**13. Concentrations of Risk:**

*Patient accounts receivable* – The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around Salmon, Idaho.

The mix of receivables from patients was as follows:

|                             | <b>2016</b>  | <b>2015</b> |
|-----------------------------|--------------|-------------|
| Medicare                    | <b>32 %</b>  | 33 %        |
| Medicaid                    | <b>5</b>     | 4           |
| Other commercial insurances | <b>37</b>    | 32          |
| Patient                     | <b>26</b>    | 31          |
|                             | <b>100 %</b> | 100 %       |

*Physicians* – The Hospital is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on hospital operations.



DINGUS | ZARECOR & ASSOCIATES PLLC  
Certified Public Accountants

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

Board of Directors  
Steele Memorial Medical Center  
A Component Unit of Lemhi County, Idaho  
Salmon, Idaho

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Steele Memorial Medical Center, a component unit of Lemhi County, Idaho (the Hospital), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 13, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2016-001, which we consider to be a material weakness.

## **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 the Finding**

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
March 13, 2017

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Schedule of Findings and Responses**  
**Year Ended September 30, 2016**

**2016-001 Third-Party Settlement Adjusting Journal Entries**

|                              |  |
|------------------------------|--|
| <b>Criteria</b>              | Third-party settlements should be prepared using accurate and complete data.<br><br>[ ] Compliance Finding   [ ] Significant Deficiency   [X] Material Weakness  |
| <b>Condition</b>             | Reports used to prepare the Medicare cost report contained incorrect data.   |
| <b>Context</b>               | This finding appears to be an <i>isolated</i> problem.   |
| <b>Cause</b>                 | The data used to prepare the revenue by revenue code report did not include charges posted after the fiscal year end that related to the current fiscal year. Rural health clinic physician ER on-call salaries were not identified and were not removed.  |
| <b>Effect</b>                | Third-party settlements were calculated using incomplete data.   |
| <b>Recommendation</b>        | We recommend that the Hospital thoroughly review schedules provided for the preparation of the Medicare cost report.   |
| <b>Management's Response</b> | Management, in the past, has relied on the Medicare reimbursement expertise of its audit firm and an external consultant to respectively prepare and review the Medicare cost report and associated work papers. The thorough review of the 2016 Medicare cost report by the external consultant identified both issues that the hospital's Chief Financial Officer then investigated. It was determined that the root cause of these issues was a change in computer systems and several provider contracts in third quarter of fiscal year 2014 and a change in CFOs in the second quarter of 2015. Staff who were assisting in the cost report work paper preparation did not understand the importance of these changes on reimbursement and therefore did not transmit this information to the cost report preparer. Since fiscal year end 2016, staff has changed and the Chief Financial Officer performs monthly reconciliations of the revenue reports and the physician salaries to insure that this situation will not reoccur. |

**Steele Memorial Medical Center**  
**A Component Unit of Lemhi County, Idaho**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended September 30, 2016**

The audit for the year ended September 30, 2015, reported no findings, nor were there any unresolved prior year findings from the year ended September 30, 2014, or prior. Therefore, there are no matters to report in this schedule for the year ended September 30, 2016.