

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

Basic Financial Statements and
Independent Auditors' Reports

September 30, 2015 and 2014



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Steele Memorial Medical Center
A Component Unit of Lemhi County, Idaho
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DINGUS | ZARECOR & ASSOCIATES PLLC
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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, 2015 and 2014, 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 opinions.

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, 2015 and 2014, 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.

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 dated January 21, 2016, 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, 2015. We issued a similar report for the year ended September 30, 2014, dated February 11, 2015, which has not been included with the 2015 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
January 21, 2016

Steele Memorial Medical Center
A Component Unit of Lemhi County, Idaho
Statements of Net Position
September 30, 2015 and 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2015	2014
<i>Current assets</i>		
Cash and cash equivalents	\$ 6,400,550	\$ 3,243,011
Investments in certificates of deposit	740,414	348,393
Receivables:		
Patient, net of estimated uncollectibles of approximately \$1,412,000 and \$1,388,000, respectively	3,177,919	3,423,051
Other	48,561	32,769
Electronic health records incentive payment	84,565	1,044,776
Estimated third-party payor settlements	487,081	717,000
Cash and cash equivalents restricted for debt service	460,000	455,000
Inventories	762,012	701,308
Prepaid expenses	306,074	265,147
Total current assets	12,467,176	10,230,455
<i>Noncurrent assets</i>		
Cash and cash equivalents:		
Restricted for capital acquisitions	184,424	184,856
Restricted for debt service	207,896	192,123
Board designated for capital acquisitions	1,318,888	1,162,873
Investments in certificates of deposit	175,155	556,405
Investment in Yellowstone Insurance Exchange	261,697	274,944
Capital assets, net	11,179,075	11,736,757
Total noncurrent assets	13,327,135	14,107,958
Total assets	25,794,311	24,338,413
<i>Deferred outflows of resources, deferred charge on debt refunding</i>	533,125	577,861
Total assets and deferred outflows of resources	\$ 26,327,436	\$ 24,916,274

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, 2015 and 2014

LIABILITIES AND NET POSITION	2015	2014
<i>Current liabilities</i>		
Current maturities of long-term debt	\$ 597,770	\$ 587,876
Accounts payable	988,163	1,441,875
Estimated third-party payor settlements	184,000	517,941
Accrued expenses:		
Payroll and related liabilities	1,084,320	967,187
Interest	23,217	23,975
Total current liabilities	2,877,470	3,538,854
<i>Long-term debt, less current maturities</i>	7,229,969	7,880,695
Total liabilities	10,107,439	11,419,549
<i>Net position</i>		
Net investment in capital assets	3,512,543	3,429,067
Restricted for debt service	667,896	647,123
Unrestricted	12,039,558	9,420,535
Total net position	16,219,997	13,496,725
Total liabilities and net position	\$ 26,327,436	\$ 24,916,274

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, 2015 and 2014

	2015	2014
<i>Operating revenues</i>		
Net patient revenue, net of provision for bad debts of \$1,062,314 and \$840,212, respectively	\$ 23,102,942	\$ 18,531,422
Electronic health records incentive payment	37,666	1,044,776
Other	168,401	179,406
Total operating revenues	23,309,009	19,755,604
<i>Operating expenses</i>		
Salaries and wages	7,731,291	7,201,362
Employee benefits	1,919,379	1,696,130
Purchased services	4,050,008	3,653,673
Supplies	4,127,832	3,235,607
Leases and rent	251,436	245,073
Repairs and maintenance	373,541	219,680
Utilities	200,373	219,240
Depreciation and amortization	1,107,436	904,880
Insurance	260,144	226,586
Travel, dues, and education	324,732	277,561
Other	584,595	608,569
Total operating expenses	20,930,767	18,488,361
<i>Operating income</i>	2,378,242	1,267,243
<i>Nonoperating revenue (expense)</i>		
Interest income	17,439	9,504
Lemhi County appropriation	406,363	404,134
Gain (loss) on investment in Yellowstone Insurance Exchange	(3,471)	94,005
Grants	16,196	23,553
Interest expense	(293,722)	(307,382)
Total nonoperating revenue, net	142,805	223,814
Excess of revenues over expenses before capital contributions	2,521,047	1,491,057
<i>Capital contributions</i>	202,225	181,849
Change in net position	2,723,272	1,672,906
Net position, beginning of year	13,496,725	11,823,819
Net position, end of year	\$ 16,219,997	\$ 13,496,725

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, 2015 and 2014

	2015	2014
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 23,244,052	\$ 16,831,196
Receipts from electronic health records incentive payment	997,877	267,392
Payments to and on behalf of employees	(9,549,329)	(8,845,783)
Payments to suppliers and contractors	(10,728,004)	(8,214,985)
Other receipts	168,401	179,406
Net cash provided by operating activities	4,132,997	217,226
<i>Cash flows from noncapital financing activities</i>		
Receipts from grants	16,196	23,553
Net cash provided by noncapital financing activities	16,196	23,553
<i>Cash flows from capital and related financing activities</i>		
Lemhi County appropriations	406,363	404,134
Contributions from Foundation	202,225	181,849
Principal paid on long-term debt	(587,876)	(576,954)
Interest on long-term debt	(302,700)	(316,342)
Purchase of property and equipment	(549,754)	(1,678,987)
Net cash used in capital and related financing activities	(831,742)	(1,986,300)
<i>Cash flows from investing activities</i>		
Purchases of investments	(438,623)	(648,207)
Proceeds from sale of investments	427,852	649,658
Distribution of surplus capital from investment in Yellowstone Insurance Exchange	9,776	-
Interest received	17,439	9,504
Net cash provided by investing activities	16,444	10,955
Net increase (decrease) in cash and cash equivalents	3,333,895	(1,734,566)
Cash and cash equivalents, beginning of year	5,237,863	6,972,429
Cash and cash equivalents, end of year	\$ 8,571,758	\$ 5,237,863

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, 2015 and 2014

	2015	2014
<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	\$ 6,400,550	\$ 3,243,011
Restricted for debt service	460,000	455,000
Cash and cash equivalents in noncurrent assets:		
Restricted for capital acquisitions	184,424	184,856
Restricted for debt service	207,896	192,123
Board designated for capital acquisitions	1,318,888	1,162,873
Total cash and cash equivalents	\$ 8,571,758	\$ 5,237,863
<i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i>		
Operating income	\$ 2,378,242	\$ 1,267,243
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>		
Depreciation and amortization	1,107,436	904,880
Provision for bad debts	1,062,314	840,212
Decrease (increase) in assets:		
Receivables:		
Patient accounts, net	(817,182)	(2,047,492)
Other	(15,792)	(19,707)
Electronic health record incentive payment	960,211	(777,384)
Estimated third-party payor settlements	229,919	(482,844)
Inventories	(60,704)	(47,462)
Prepaid expenses	(40,927)	(25,026)
Increase (decrease) in liabilities:		
Accounts payable	(453,712)	543,492
Estimated third-party payor settlements	(333,941)	(10,102)
Accrued payroll and related liabilities	117,133	71,416
Net cash provided by operating activities	\$ 4,132,997	\$ 217,226

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, 2015 and 2014

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.

As required by accounting principles generally accepted in the United States of America, the financial statements present the Hospital — the primary government — and its component unit. The component unit discussed below is included in the Hospital reporting entity because of the significance of its operations and financial relationships with the Hospital.

b. Component Unit

Steele Memorial Hospital Benefit Association doing business as Steele Memorial Foundation (the Foundation) is organized as an Idaho nonprofit corporation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation was organized to solicit and accept charitable contributions in order to provide support to the Hospital.

The Foundation is a beneficiary of a \$3,000,000 grant from another private foundation. The grant will be paid semiannually until July 2022, and proceeds are to be used for the payment of interest and principal on the Steele Memorial Hospital outstanding bonds. Short-term installments due during the year ended September 30, 2015, have been recorded at fair value of \$125,000. The remaining installments are recorded based on the estimated present value of the payment stream over the term of the related agreement at the date the promise was received. Foundation contributions to the Hospital were \$197,000 and \$180,000 in the years ended September 30, 2015 and 2014, respectively.

The Foundation's condensed balance sheets are summarized as follows:

	2015	2014
<i>Assets</i>		
Cash and investments	\$ 108,804	\$ 138,590
Promise to give	125,000	125,000
Promise to give, net of discount	722,425	848,534
Total assets	956,229	1,112,124
<i>Net assets</i>		
Unrestricted	108,804	138,590
Temporarily restricted	847,425	973,534
Total net assets	\$ 956,229	\$ 1,112,124

Steele Memorial Medical Center
A Component Unit of Lemhi County, Idaho
Notes to Basic Financial Statements
Years Ended September 30, 2015 and 2014

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

b. Component Unit (continued)

The Foundation's condensed statements of revenues, expenses, and changes in net assets are summarized as follows:

	2015	2014
Total revenues	\$ 52,083	\$ 85,008
Total expenses	207,978	189,684
Change in net assets	(155,895)	(104,676)
Net assets, beginning of year	1,112,124	1,216,800
Net assets, end of year	\$ 956,229	\$ 1,112,124

c. 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 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

Steele Memorial Medical Center
A Component Unit of Lemhi County, Idaho
Notes to Basic Financial Statements
Years Ended September 30, 2015 and 2014

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

c. Summary of Significant Accounting Policies (continued)

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.

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 other 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.

Subsequent events – The Hospital has evaluated subsequent events through January 21, 2016, 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
Years Ended September 30, 2015 and 2014

2. Bank Deposits and Investments:

Custodial credit risk is the risk that in the event of a depository institution's failure, the Hospital's deposits may not be refunded to it. The Hospital does not have a deposit policy for custodial credit risk. As of September 30, 2015 and 2014, the Hospital had uncollateralized deposit balances of \$5,425,784 and \$2,418,674, respectively.

Interest rate risk – This 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.

Idaho state statutes limit the investments in bonds, debentures, or notes of any corporation to be rated "A" or higher by nationally recognized statistical rating organizations.

The Hospital's investments included:

	2015			
	Fair Value	Investment Maturities (in Years)		Investment Ratings
		Less Than One	One to Five	
Certificates of deposit	\$ 915,569	\$ 740,414	\$ 175,155	Not applicable

	2014			
	Fair Value	Investment Maturities (in Years)		Investment Ratings
		Less Than One	One to Five	
Certificates of deposit	\$ 904,798	\$ 348,393	\$ 556,405	Not applicable

Steele Memorial Medical Center
A Component Unit of Lemhi County, Idaho
Notes to Basic Financial Statements
Years Ended September 30, 2015 and 2014

3. 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 years. 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:

	2015	2014
Receivables from patients and their insurance carriers	\$ 3,476,262	\$ 3,363,430
Receivables from Medicare	993,745	1,257,892
Receivables from Medicaid	119,712	190,116
Total patient accounts receivable	4,589,719	4,811,438
Less allowance for uncollectible accounts	1,411,800	1,388,387
Patient accounts receivable, net	\$ 3,177,919	\$ 3,423,051

Steele Memorial Medical Center
A Component Unit of Lemhi County, Idaho
Notes to Basic Financial Statements
Years Ended September 30, 2015 and 2014

4. Capital Assets:

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

	Balance September 30, 2014	Additions	Retirements	Transfers	Balance September 30, 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
Capital assets, net	\$ 11,736,757	\$ (557,682)	\$ -	\$ -	\$ 11,179,075

Steele Memorial Medical Center
A Component Unit of Lemhi County, Idaho
Notes to Basic Financial Statements (Continued)
Years Ended September 30, 2015 and 2014

4. Capital Assets (continued):

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

	Balance September 30, 2013	Additions	Retirements	Transfers	Balance September 30, 2014
<i>Capital assets not being depreciated</i>					
Land	\$ 958,744	\$ -	\$ -	\$ -	\$ 958,744
Construction in progress	309,740	-	-	(110,412)	199,328
Total capital assets not being depreciated	1,268,484	-	-	(110,412)	1,158,072
<i>Capital assets being depreciated</i>					
Buildings and improvements	10,267,789	157,226	-	-	10,425,015
Land improvements	189,383	-	-	-	189,383
Major movable equipment	6,081,080	1,521,761	(530)	110,412	7,712,723
Total capital assets being depreciated	16,538,252	1,678,987	(530)	110,412	18,327,121
<i>Less accumulated depreciation for</i>					
Buildings and improvements	2,689,814	287,883	-	-	2,977,697
Land improvements	84,861	13,704	-	-	98,565
Major movable equipment	4,069,411	603,293	(530)	-	4,672,174
Total accumulated depreciation	6,844,086	904,880	(530)	-	7,748,436
<i>Total capital assets being depreciated, net</i>	9,694,166	774,107	-	110,412	10,578,685
Capital assets, net	\$ 10,962,650	\$ 774,107	\$ -	\$ -	\$ 11,736,757

Significant construction in progress as of September 30, 2015, consisted of the construction of a new medical office building. The estimated cost of the project will be \$7,000,000. The Hospital is anticipating borrowing \$6,500,000 and funding the remaining \$500,000 themselves. The estimated completion date is fall 2017.

Steele Memorial Medical Center
A Component Unit of Lemhi County, Idaho
Notes to Basic Financial Statements (Continued)
Years Ended September 30, 2015 and 2014

5. Long-term Debt:

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

	Balance September 30, 2014	Additions	Reductions	Balance September 30, 2015	Amounts Due Within 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
Total long-term debt	\$ 8,468,571	\$ -	\$ (640,832)	\$ 7,827,739	\$ 597,770

	Balance September 30, 2013	Additions	Reductions	Balance September 30, 2014	Amounts Due Within One Year
General obligation bonds:					
2011	\$ 7,755,000	\$ -	\$ (445,000)	\$ 7,310,000	\$ 455,000
2011 bond premium	736,975	-	(52,956)	684,019	-
Capital lease obligations	606,506	-	(131,954)	474,552	132,876
Total long-term debt	\$ 9,098,481	\$ -	\$ (629,910)	\$ 8,468,571	\$ 587,876

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 \$460,000 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. The Foundation anticipates receiving grant funds as discussed in Note 1. 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, 2015 and 2014

5. Long-term Debt (continued):

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 \$337,675 and \$202,605 as of September 30, 2015 and 2014, respectively.

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

Years Ending September 30,	Bonds		
	Principal	Interest	Total
2016	\$ 460,000	\$ 278,600	\$ 738,600
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
2021-2025	3,000,000	714,400	3,714,400
2026-2027	1,380,000	104,250	1,484,250
	\$ 6,855,000	\$ 2,053,650	\$ 8,908,650

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

Years Ending September 30,	Capital Lease Obligations		
	Principal	Interest	Total
2016	\$ 137,770	\$ 10,106	\$ 147,876
2017	142,845	5,031	147,876
2018	61,061	554	61,615
	\$ 341,676	\$ 15,691	\$ 357,367

6. Line of Credit:

The Hospital has one open line of credit with Wells Fargo at September 30, 2015, for \$1,000,000. There were no draws or payments associated with this loan during the year and no balance outstanding at year end.

Steele Memorial Medical Center
A Component Unit of Lemhi County, Idaho
Notes to Basic Financial Statements (Continued)
Years Ended September 30, 2015 and 2014

7. 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 2015 or 2014. 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:

	2015	2014
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 10,229,521	\$ 7,990,669
Medicaid	1,847,646	1,242,179
Other third-party payors	10,777,855	8,399,587
Patients	1,404,939	1,864,519
	24,259,961	19,496,954
Less:		
Charity care	94,705	125,320
Provision for bad debts	1,062,314	840,212
Net patient service revenue	\$ 23,102,942	\$ 18,531,422

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 the 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

Steele Memorial Medical Center
A Component Unit of Lemhi County, Idaho
Notes to Basic Financial Statements (Continued)
Years Ended September 30, 2015 and 2014

7. Net Patient Service Revenue (continued):

- *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.

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 \$39,000 and \$45,000 in 2015 and 2014, 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, 2015 and 2014, were approximately \$54,000 and \$83,000, respectively.

8. Electronic Health Records Incentive Payment:

The Hospital recognized Medicare and Medicaid electronic health records (EHR) incentive payments during the years ended September 30, 2015 and 2014. 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 1, year 1, with Medicare in September 2014. The Medicare EHR reporting period is through September 30 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 \$12,853 and \$830,863 was recognized in 2015 and 2014, respectively.

Steele Memorial Medical Center
A Component Unit of Lemhi County, Idaho
Notes to Basic Financial Statements (Continued)
Years Ended September 30, 2015 and 2014

8. Electronic Health Records Incentive Payment (continued):

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 2016.

9. 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's-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, 2015 and 2014, employee contributions totaled approximately \$340,000 and \$336,000, respectively.

The Hospital had no liability to the 457 Plan at September 30, 2015.

The Hospital provides employees with the Steele Memorial Hospital Profit Sharing Plan (the Plan), a profit sharing plan, for its benefit's-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, 2015 and 2014, Hospital contributions totaled approximately \$144,000 and \$131,000, respectively.

The Hospital had a liability to the Plan of approximately \$111,000 at September 30, 2015.

10. Commitment:

The Hospital has amended a contract with QHR effective March 2013 for management and advisory services through March 2017. Compensation for salaries beginning April 2015 is approximately \$236,000 per year, which includes \$120,000 designated as severance pay. This severance pay is refundable at the end of the contract term if unused.

Total payments to QHR that include management fees, consulting engagements, and salaries and benefits pass-through for the years ended September 30, 2015 and 2014, were approximately, \$780,000 and \$596,000, respectively.

Steele Memorial Medical Center
A Component Unit of Lemhi County, Idaho
Notes to Basic Financial Statements (Continued)
Years Ended September 30, 2015 and 2014

11. 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, 2015 and 2014, 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, 2015 and 2014, the Hospital received distributions of \$9,777 and \$0, respectively. During the years ended September 30, 2015 and 2014, the Hospital recorded a gain (loss) on investment in the amount of (\$3,471) and \$94,005, 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, 2015 and 2014

12. 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:

	2015	2014
Medicare	33 %	37 %
Medicaid	4	4
Other commercial insurances	32	37
Patient	31	22
	100 %	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 Steele Memorial Medical Center, a component unit of Lemhi County, Idaho (the Hospital), as of and for the year ended September 30, 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, and have issued our report thereon dated January 21, 2016.

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

Compliance and Other Matters

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

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
January 21, 2016

Steele Memorial Medical Center
A Component Unit of Lemhi County, Idaho
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2015

2014-01 Allowance for Uncollectible Accounts and Contractual Allowances

Resolved in 2015.