Memorial Hospital of Lafayette County

An Enterprise Fund of Lafayette County

Darlington, Wisconsin

Financial Statements, Required Supplemental Information, and Supplementary Information

Years Ended December 31, 2016 and 2015

Memorial Hospital of Lafayette County

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WIPFLi LLP

Independent Auditor's Report

Board of Trustees
Memorial Hospital of Lafayette County
Darlington, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Memorial Hospital of Lafayette County, an enterprise fund of Lafayette County, Wisconsin, which comprise the statement of net position as of December 31, 2016, and the related statements of revenue, expenses, and changes in net position and cash flows for the year then ended and the related notes to the financial statements.

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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Report on the Financial Statements (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Memorial Hospital of Lafayette County as of December 31, 2016, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Prior Period Financial Statements

The 2015 financial statements of Memorial Hospital of Lafayette County were audited by other auditors whose report dated July 28, 2016, expressed an unmodified opinion on those statements.

Emphasis of Matter

As discussed in Note 1, the financial statements present only Memorial Hospital of Lafayette County and do not purport to, and do not, present fairly the financial position of Lafayette County, Wisconsin, as of December 31, 2016, the change in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that schedules of employer's proportionate share of the net pension asset and employer contributions – Wisconsin Retirement System on page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information appearing on pages 41 through 43 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated July 25, 2017, on our consideration of Memorial Hospital of Lafayette County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Memorial Hospital of Lafayette County's internal control over financial reporting and compliance.

Wipfli LLP

Wipfli LLP

July 25, 2017
Eau Claire, Wisconsin

Memorial Hospital of Lafayette County

Statements of Net Position

December 31, 2016 and 2015

Assets and Deferred Outflows of Resources	2016	2015
Current assets:		
Cash and cash equivalents	$ 2,218,906	$ 150,602
Patient receivables - Net	1,758,594	1,883,779
Other receivables	163,160	71,120
Amounts receivable from third-party reimbursement programs	-	1,245,215
Inventories	271,312	340,053
Prepaid expenses	234,844	235,169
Total current assets	4,646,816	3,925,938
Noncurrent assets:		
Restricted - Net pension assets	-	618,400
Capital assets:		
Land	19,799	19,799
Construction in progress	-	74,836
Depreciable capital assets - Net of accumulated depreciation	4,095,750	4,190,584
Capital assets - Net	4,115,549	4,285,219
Total noncurrent assets	4,115,549	4,903,619
Total assets	8,762,365	8,829,557
Deferred outflows of resources related to pensions	2,406,559	646,653
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 11,168,924	$ 9,476,210

Liabilities, Deferred Inflows of Resources, and Net Position	2016	2015
Current liabilities:		
Current portion of capital lease payable	$ 26,768	$ 68,289
Current portion of long-term debt	61,309	59,765
Accounts payable	626,751	372,298
Accrued payroll and payroll taxes	185,175	153,807
Accrued interest	650	650
Amounts payable to third-party reimbursement programs	376,000	-
Due to county general fund	-	13,689
Current portion of compensated absences	194,725	191,142
Total current liabilities	1,471,378	859,640
Noncurrent liabilities:		
Capital lease payable	72,211	99,091
Long-term debt	474,575	535,883
Compensated absences	471,088	478,052
Net pension liability	439,230	-
Total noncurrent liabilities	1,457,104	1,113,026
Total liabilities	2,928,482	1,972,666
Deferred inflows of resources:		
Related to pensions	928,205	5,116
Net position:		
Net investment in capital assets	3,480,686	3,522,191
Restricted for pension benefit	-	618,400
Unrestricted	3,831,551	3,357,837
Total net position	7,312,237	7,498,428
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 11,168,924	$ 9,476,210

See accompanying notes to financial statements.

Memorial Hospital of Lafayette County

Statements of Revenue, Expenses, and Changes in Net Position

Years Ended December 31, 2016 and 2015

	2016	2015
Operating revenue:		
Net patient service revenue	$ 14,023,425	$ 14,291,791
Other revenue	42,871	136,488
Total operating revenue	14,066,296	14,428,279
Operating expenses:		
Operating expenses	13,775,559	13,368,792
Depreciation	559,389	564,268
Total operating expenses	14,334,948	13,933,060
Income (loss) from operations	(268,652)	495,219
Nonoperating revenue (expenses):		
Nonoperating income	76,770	72,843
Investment income	3,035	136
Interest expense	(21,461)	(22,340)
Loss on disposal of capital assets	-	(63,896)
Intergovernmental grants	9,409	19,487
Contributions and other	14,708	214,042
Total nonoperating revenue - Net	82,461	220,272
Income (loss) before transfers	(186,191)	715,491
Transfers out	-	(4,026)
Change in net position	(186,191)	711,465
Net position at beginning of year	7,498,428	6,786,963
Net position at end of year	$ 7,312,237	$ 7,498,428

See accompanying notes to financial statements.

Memorial Hospital of Lafayette County

Statements of Cash Flows

Years Ended December 31, 2016 and 2015

	2016	2015
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Cash received from and on behalf of patients	$ 15,520,356	$ 13,395,533
Cash paid to suppliers and contractors for goods and services	(7,453,107)	(7,630,304)
Cash payments for employee compensation and fringe benefits	(5,606,392)	(5,772,473)
Other receipts from operations other than patient services	42,871	62,300
Net cash provided by operating activities	2,503,728	55,056
Cash flows from investing activities - Investment income	3,035	136
Cash flows from non-capital financing activities:		
Transfers out	-	(4,026)
Grants and contributions	24,117	32,956
Nonoperating income	76,770	72,843
Net cash provided by non-capital financing activities	100,887	101,773
Cash flows from capital and related financing activities:		
Payments on capital lease obligations	(68,401)	(68,253)
Donations	-	164,042
Payments on long-term debt	(59,764)	(116,689)
Interest paid	(21,461)	(26,886)
Purchase of capital assets	(389,720)	(296,185)
Proceeds from sale of capital assets	-	42,130
Net cash used in capital and related financing activities	(539,346)	(301,841)
Increase (decrease) in cash and cash equivalents	2,068,304	(144,876)
Cash and cash equivalents at beginning	150,602	295,478
Cash and cash equivalents at end	$ 2,218,906	$ 150,602

Memorial Hospital of Lafayette County

Statements of Cash Flows (Continued)

Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of income (loss) from operations to net cash provided by operating activities:		
Income (loss) from operations	$ (268,652)	$ 495,219
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:		
Depreciation	559,389	564,268
Provision for bad debts	157,429	384,359
Changes in operating assets and liabilities:		
Patients accounts receivables - Net	(32,244)	(568,555)
Other receivables	(92,040)	(16,691)
Amounts receivable from third-party reimbursement programs	1,245,215	(700,724)
Due from Medicare	-	(146,181)
Due from Medicaid	-	82,586
Inventories	68,741	16,022
Prepaid expenses	325	(10,970)
Net pension changes	220,814	(26,543)
Due to/due from other funds	(13,689)	13,689
Accounts payable	254,453	(51,620)
Accrued payroll and payroll taxes	31,368	18,909
Compensated absences	(3,381)	1,288
Accounts payable to third-party reimbursement programs	376,000	-
Total adjustments	2,772,380	(440,163)
Net cash provided by operating activities	$ 2,503,728	$ 55,056
Noncash capital and related financing activities:		
Net equipment financed through capital leases	$ -	$ 110,735

See accompanying notes to financial statements.

Memorial Hospital of Lafayette County

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies

Memorial Hospital of Lafayette County (the "Hospital") operates as a 25-bed acute care critical access hospital owned and operated by Lafayette County (the "County"). The Hospital provides comprehensive medical, surgical, emergency and outpatient services. Its governing body consists of six members of which five are appointed from the Lafayette County Board of Supervisors.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Hospital is presented as an enterprise fund of the County. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred, and net income is necessary for management accountability.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that directly affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Deposits and Investments

For purposes of the statements of cash flows, the Hospital considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents. Investment of Hospital funds is restricted by state statutes. Available investments are limited to:

1. Time deposits in any credit union, bank, savings bank, or trust company maturing in three years or less.
2. Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, a local professional baseball park district, a local professional football stadium district, a local cultural arts district, the University of Wisconsin Hospitals and Clinics Authority, or the Wisconsin Aerospace Authority.
3. Bonds or securities issued or guaranteed by the federal government.
4. The local government investment pool.
5. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
6. Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
7. Repurchase agreements with public depositories, with certain conditions.

The County has not adopted an investment policy.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

Note 1 Summary of Significant Accounting Policies (Continued)

Patient Receivables and Credit Policy

Patient receivables are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The Hospital bills third-party payors on each patient's behalf, or, if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for co-pay and deductible amounts that are the patients' responsibility. Payments on patient receivables are applied to the specific claim identified on the remittance advice or statement. The Hospital does not have a policy to charge interest on past due accounts.

Patient receivables are recorded in the accompanying statements of net position net of contractual adjustments and an allowance for uncollectible accounts, which reflect management's best estimate of the accounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross patient service revenue and a credit to patient receivables. In addition, management provides for probable uncollectible amounts, primarily uninsured patients and amounts for which patients are personally responsible for, through a charge to operations and a credit to a valuation allowance based on its assessment of historical collection likelihood and the current status of individual accounts.

In evaluating the collectibility of patient receivables, the Hospital analyzes past results 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. Specifically, 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 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 includes 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 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Inventories

Inventories of supplies are valued at the lower of cost, determined on the first-in, first-out (FIFO) method, or market.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the accompanying financial statements.

Restricted Net Assets

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by external parties. Restricted assets of $618,400 were reported at December 31, 2015, in connection with the net pension asset balance since this balance must be used to fund employee benefits. No restricted net assets were reported at December 31, 2016.

Capital Assets and Depreciation

Capital assets are recorded at cost or, if donated, at fair value at the date of donation. The Hospital maintains a threshold level of a unit or group cost of $5,000 or more and an estimated useful life in excess of one year for capitalizing capital assets. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included with depreciation expense in the accompanying financial statements. Estimated useful lives range from three to twenty-five years for leased, movable, and building equipment and five to forty years for land improvements and buildings.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from income (loss) from operations, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Note 1 Summary of Significant Accounting Policies (Continued)

Impairment

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital assets is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital assets. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent upon the event or circumstance in which the impairment occurred. Impairment losses, if any, are reported in the statements of revenue, expenses, and changes in net position. There were no impairment losses recorded in the years ended December 31, 2016 and 2015.

Asset Retirement Obligation

The Hospital accounts for the fair value of legal obligations associated with long-lived asset retirement in accordance with the asset retirement and environmental obligations accounting guidance. Management has considered this accounting guidance, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Management of the Hospital believes that any potential liability related to asset retirement obligations would not be significant. As a result, no liability related to these retirement activities has been recognized as of December 31, 2016 and 2015.

Note 1 Summary of Significant Accounting Policies (Continued)

Compensated Absences

Under terms of employment, employees are granted sick leave, vacation, and personal benefits in varying amounts.

The Hospital's employees earn one day of sick leave per month. Employees can accumulate a maximum of 960 hours. Under the County's personnel policy, employees who retire under the Wisconsin Retirement System or retire due to disability shall have their accumulated sick leave paid out to them at their current rate of pay. The payment may be in the form of a lump sum or in bi-weekly installments. At the end of each calendar year, the Hospital shall pay each employee 50% of the excess over the 960 hour maximum accumulation. The accrued liability for sick and vacation was estimated using probabilities based on the age of each employee.

Payments for sick leave, vacation, and personal days will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at December 31, 2016 and 2015, are determined on the basis of current salary rates. All vested vacation and sick leave pay is accrued when incurred in the Hospital financial statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section of deferred outflows of resources. The separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Hospital has one item that qualifies for reporting in this category. The Hospital reports deferred outflows of resources for its proportionate shares of collective deferred outflows of resources related to pensions and the Hospital contributions to pension plans subsequent to the measurement date of the collective net pension liability (asset).

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents the acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Hospital reports deferred inflows of resources for its proportionate share of collective deferred inflows of resources related to pensions.

Note 1 Summary of Significant Accounting Policies (Continued)

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. Unrestricted net position is remaining net position that does not meet the definitions above.

Operating Revenue and Expenses

The Hospital's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue includes exchange transactions associated with providing health care services other than noncapital grants and contributions. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Nonoperating revenue and expenses are those transactions not considered directly linked to providing health care services.

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. Certain third-party payor reimbursement agreements are subject to audit and retroactive adjustments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

For uninsured patients who 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 Facility records a provision for bad debts related to uninsured patients in the period the services are provided.

Note 1 Summary of Significant Accounting Policies (Continued)

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Hospital maintains records to identify the amount of charges foregone for services and supplies furnished under the charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue in the accompanying statements of revenue, expenses, and changes in net position.

Electronic Health Record Incentive Funding

The American Recovery and Reinvestment Act of 2009 ("ARRA") provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record ("EHR") technology. These provisions of ARRA, collectively referred to as the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), are intended to promote the adoption and meaningful use of health information technology and qualified EHR technology.

The Hospital recognizes revenue for EHR incentive payments when there is reasonable assurance that the Hospital will meet the conditions of the program, primarily demonstrating meaningful use of certified EHR technology for the applicable period. The demonstration of meaningful use is based on meeting a series of objectives. Meeting the series of objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by the Centers for Medicare and Medicaid Services (CMS).

Amounts recognized under the EHR incentive programs are based on qualifying costs expended for EHR technology and are subject to audit by fiscal intermediaries; accordingly, amounts recognized are subject to change. In addition, the Hospital's attestation of its compliance with the meaningful use criteria is subject to audit by the federal government or its designee.

Note 1 Summary of Significant Accounting Policies (Continued)

Grants and Contributions

The Hospital receives grants as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or are restricted to a specific operating purpose are reported as operating revenue. Amounts restricted to capital acquisitions are reported as nonoperating revenue (expenses).

Advertising Costs

Advertising costs are expensed as incurred.

Subsequent Events

Subsequent events have been evaluated through July 25, 2017, which is the date the financial statements were available to be issued. See Note 16 for subsequent events.

Note 2 Reimbursement Arrangements With Third-Party Payors

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts that vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows:

Hospital Services

Medicare – The Hospital is designated as a critical access hospital (CAH) with reimbursement based upon cost for inpatient, swing bed, and outpatient services with the exception of certain lab and radiology services, which are reimbursed based on fee schedules. Professional services provided by physicians and other clinicians are reimbursed based upon prospectively determined fee schedules.

Medicaid – The Hospital's reimbursement is based on a form of cost, determined prospectively based on prior filed cost reports, for inpatient and outpatient services with the exception of certain lab and therapy services, which are reimbursed based on fee schedules. Professional services provided by physicians and other clinicians are reimbursed based upon prospectively determined fee schedules.

Others – The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations, and State of Wisconsin county agencies. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Accounting for Contractual Arrangements

The Hospital is reimbursed for certain cost-reimbursable items at interim rates with final settlements determined after audit of the related annual cost reports by the respective Medicare and Medicaid fiscal intermediaries. Estimated provisions to approximate the final expected settlements after review by the intermediaries are included in the accompanying financial statements. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2014.

Note 2 Reimbursement Arrangements With Third-Party Payors (Continued)

Wisconsin Hospital Assessments

Under legislation enacted by the State of Wisconsin, eligible CAHs, including the Hospital, are required to pay the State an annual assessment. The assessment period is the State's fiscal year, which runs from July to June. The assessment is based on each hospital's gross inpatient revenue, as defined. The revenue generated from the assessment is to be used, in part, to increase overall reimbursement under the Wisconsin Medicaid program through the development of an access payment system. Under the CAH payment system, the Wisconsin Medicaid program pays a hospital-specific amount per discharge for inpatient and outpatient services, determined based on prior hospital cost reports, plus an additional access payment. In exchange for receiving these access payments, the State of Wisconsin eliminated retrospective cost report settlements to CAHs effective July 1, 2010, other than for certain laboratory services.

Note 3 Cash and Cash Equivalents

Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to the Hospital. The Hospital does not have a deposit policy for custodial credit risk. Amounts on deposit with depository entities are insured up to $250,000 by the FDIC and up to an additional $400,000 by the State of Wisconsin Public Deposit Guarantee program.

Cash is held for the Hospital by the Lafayette County treasurer in local bank accounts.

Interest Rate Risk – 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. State Statute limits the maturity of commercial paper and corporate bonds to not more than seven years.

Credit Risk – State Statute limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. Ratings are not required, or available, for the Wisconsin Local Government Investment Pool. The Hospital has no investment policy that would further limit its investment choices. As of December 31, 2016 and 2015, the Hospital does not have any investments in commercial paper or corporate bonds.

Note 4 Patient Receivables

Patient receivables – net consisted of the following at December 31:

	2016	2015
Patient receivables	$ 3,195,294	$ 3,248,676
Less:		
Contractual adjustments	1,025,100	1,074,897
Allowance for uncollectible accounts	411,600	290,000
Patient receivables - Net	$ 1,758,594	$ 1,883,779

Note 5 Net Patient Service Revenue

Net patient service revenue consisted of the following for the years ended December 31:

	2016	2015
Gross patient service revenue:		
Inpatient services	$ 5,902,370	$ 6,441,016
Outpatient services	16,295,439	16,223,963
Other services	434,553	481,151
Total gross patient servic revenue	22,632,362	23,146,130
Less:		
Contractual adjustments	8,451,508	8,469,980
Provision for bad debts	157,429	384,359
Net patient service revenue	$ 14,023,425	$ 14,291,791

Note 5 Net Patient Service Revenue (Continued)

The following table reflects the approximate portion of gross patient service revenue provided to patients whose bills were paid in full or in part by the following programs or third-party payors, which are considered to be the significant sources of revenue for the Hospital, for the years ended December 31:

	2016	2015
Medicare and Medicare Advantage Plans	44%	44%
Medicaid and Medicaid Health Maintenance Organization (HMO) Plans	10%	11%
Other third-party payors	41%	40%
Private pay	5%	5%
Totals	100%	100%

Note 6 Charity Care

The Hospital provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, including the health of low-income patients. Consistent with the mission of the Hospital, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources or are underinsured.

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care without charge or at a reduced rate, determined based on qualifying criteria as defined in the Hospital's charity care policy and from applications completed by patients and their families.

Benefits for the community also include health screenings, community education through seminars and classes, and other health-related services.

The estimated cost of providing care to patients under the Hospital's charity care policy was approximately $14,000 and $48,000 in 2016 and 2015, respectively. The cost was calculated by multiplying the ratio of cost to gross charges for the Hospital times the gross uncompensated charges associated with providing the charity care.

Note 7 Capital Assets

A summary of changes in capital assets for 2016 follows:

	Balance 1/1/16	Increases	Decreases	Balance 12/31/16
Nondepreciable capital assets:				
Land	$ 19,799	$ -	$ -	$ 19,799
Construction in progress	74,836	-	74,836	-
Total nondepreciable capital assets	94,635	-	74,836	19,799
Depreciable capital assets:				
Land improvements	156,891	-	-	156,891
Buildings	7,838,259	31,910	-	7,870,169
Buildings equipment	420,211	43,787	-	463,998
Movable equipment	3,186,904	388,858	-	3,575,762
Leased equipment	544,036			544,036
Total depreciable capital assets	12,146,301	464,555	-	12,610,856
Less accumulated depreciation for:				
Land improvements	66,285	9,949	-	76,234
Buildings	4,746,970	245,753	-	4,992,723
Buildings equipment	292,323	44,204	-	336,527
Movable equipment	2,519,842	204,649	-	2,724,491
Leased equipment	330,297	54,834	-	385,131
Total accumulated depreciation	7,955,717	559,389	-	8,515,106
Net depreciable capital assets	4,190,584	(94,834)	-	4,095,750
Total capital assets - Net	$ 4,285,219	$ (94,834)	$ 74,836	$ 4,115,549

Note 7 Capital Assets (Continued)

A summary of changes in capital assets for 2015 follows:

	Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Nondepreciable capital assets:				
Land	$ 19,799	$ -	$ -	$ 19,799
Construction in progress	-	123,681	48,845	74,836
Total nondepreciable capital assets	19,799	123,681	48,845	94,635
Depreciable capital assets:				
Land improvements	156,891	-	-	156,891
Buildings	7,789,414	48,845	-	7,838,259
Buildings equipment	413,913	6,298	-	420,211
Movable equipment	3,030,760	166,162	10,018	3,186,904
Leased equipment	639,803	150,485	246,252	544,036
Total depreciable capital assets	12,030,781	371,790	256,270	12,146,301
Less accumulated depreciation for:				
Land improvements	56,336	9,949	-	66,285
Buildings	4,501,082	245,888	-	4,746,970
Buildings equipment	252,152	40,171	-	292,323
Movable equipment	2,332,076	197,784	10,018	2,519,842
Leased equipment	360,342	70,476	100,521	330,297
Total accumulated depreciation	7,501,988	564,268	110,539	7,955,717
Net depreciable capital assets	4,528,793	(192,478)	145,731	4,190,584
Total capital assets - Net	$ 4,548,592	$ (68,797)	$ 194,576	$ 4,285,219

Note 8 Long-Term Obligations

Long-term obligations activity for the year ended December 31, 2016, was as follows:

	Balance 1/1/16	Increases	Decreases	Balance 12/31/16	Amounts Due Within One Year
Bonds and notes payable:					
General obligation debt	$ 595,648	$ -	$ 59,764	$ 535,884	$ 61,309
Other liabilities:					
Vested compensated absences	669,194	237,596	240,977	665,813	194,725
Capital leases	167,380	-	68,401	98,979	26,768
Total other liabilities	836,574	237,596	309,378	764,792	221,493
Total long-term obligations	$ 1,432,222	$ 237,596	$ 369,142	$ 1,300,676	$ 282,802

Long-term obligations activity for the year ended December 31, 2015, was as follows:

	Balance 1/1/15	Increases	Decreases	Balance 12/31/15	Amounts Due Within One Year
Bonds and notes payable:					
General obligation debt	$ 712,337	$ -	$ 116,689	$ 595,648	$ 59,765
Other liabilities:					
Vested compensated absences	667,906	200,388	199,100	669,194	191,142
Capital leases	124,898	110,735	68,253	167,380	68,289
Total other liabilities	792,804	311,123	267,353	836,574	259,431
Total long-term obligations	$ 1,505,141	$ 311,123	$ 384,042	$ 1,432,222	$ 319,196

Note 8 Long-Term Obligations (Continued)

General Obligation Debt

The County issued general obligation debt and advanced portions of the proceeds to the Hospital for construction projects.

	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance December 31, 2016
Promissory note	9/15/2014	12/15/2024	2.49%	$ 650,000	$ 535,884

	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance December 31, 2015
Promissory note	9/15/2014	12/15/2024	2.49%	$ 650,000	$ 595,648

Debt service requirements to maturity are as follows:

	General Obligation Debt	
	Principal	Interest
2017	$ 61,309	$ 12,647
2018	62,854	11,103
2019	64,437	9,520
2020	66,036	7,920
2021	67,723	6,234
2022 - 2024	213,525	8,298
Totals	$ 535,884	$ 55,722

Note 9 Lease Disclosures

Lessee – Capital Leases

In the previous years, the Hospital has acquired capital assets through lease and purchase agreements. The gross amount of these assets under capital lease is $544,036 at December 31, 2016 and 2015, and accumulated depreciation is $385,131 and $330,297 at December 31, 2016 and 2015, respectively, which are included in capital assets. Following is a schedule of future minimum lease payments required under the capital leases with the present value of the net minimum lease payments as of December 31:

	Principal	Interest
2017	$ 26,880	$ 4,715
2018	25,579	3,364
2019	28,681	1,874
2020	17,839	338
Totals	$ 98,979	$ 10,291

Lessee – Operating Leases

The Hospital leases equipment under noncancelable operating leases. Amounts paid for operating leases for the year ended December 31, 2016 and 2015, was approximately $394,000 and $415,000, respectively. Future minimum payments are as follows:

2017	$ 188,497
2018	67,943
2019	39,055
2020	37,241
2021	15,518
Totals	$ 348,254

Note 10 Net Position

The following calculation supports net position at December 31:

	2016	2015
Net investment in capital assets:		
Land	$ 19,799	$ 19,799
Construction in progress	-	74,836
Other capital assets - Net of accumulated depreciation	4,095,750	4,190,584
Less - Related capital lease payable	(98,979)	(167,380)
Less - Related long-term debt	(535,884)	(595,648)
Total net investment in capital assets	3,480,686	3,522,191
Restricted for pensions	-	618,400
Unrestricted	3,831,551	3,357,837
Net position	$ 7,312,237	$ 7,498,428

In 2015, the Hospital received a donation in the amount of $200,000. $150,000 was received in 2015 and the remaining $50,000 was received in 2016. The Hospital has chosen to designate these funds for future capital improvements.

Note 11 Employee Retirement Plans – Wisconsin Retirement System (WRS)

Plan Description

The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government, and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1,200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at http://etf.wi.gov./publications/cafr.htm.

Vesting

For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

Benefits Provided

Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings are the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Note 11 Employee Retirement Plans – Wisconsin Retirement System (WRS) (Continued)

Benefits Provided (Continued)

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees

Post-retirement Adjustments

The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For core annuities, decreases may be applied only to previously granted increases. By law, core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The core and variable annuity adjustments granted during recent years are as follows:

Year	Core Fund Adjustment	Variable Fund Adjustment
2006	0.8%	3%
2007	3.0%	10%
2008	6.6%	0%
2009	(2.1%)	(42%)
2010	(1.3%)	22%
2011	(1.2%)	11%
2012	(7.0%)	(7%)
2013	(9.6%)	9%
2014	4.7%	25%
2015	2.9%	2%

Note 11 Employee Retirement Plans – Wisconsin Retirement System (WRS) (Continued)

Contributions

Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, executives, and elected officials. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

During the reporting period, the WRS recognized $257,545 in contributions from the employer.

Contribution rates as of December 31, 2016 and 2015, are as follows:

	2016		2015	
	Employee	Employer	Employee	Employer
General	6.6%	6.6%	6.8%	6.8%
Executives and elected officials	6.6%	6.6%	7.7%	7.7%
Protective with social security	6.6%	9.4%	6.8%	9.5%
Protective without social security	6.6%	13.2%	6.8%	13.1%

Note 11 Employee Retirement Plans – Wisconsin Retirement System (WRS) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2016 and 2015, the Hospital reported a liability (asset) of $439,230 and $(618,400) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation one year prior to and rolled forward to the measurement date. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Hospital's proportion of the net pension liability (asset) was based on the Hospital's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016 and 2015, the Hospital's proportion was 0.02702986% and 0.02517635%, which was an increase of 0.00185351% from its proportion measured as of December 31, 2014.

For the year ended December 31, 2016, the Hospital recognized pension expense of $475,921.

Note 11 Employee Retirement Plans – Wisconsin Retirement System (WRS) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

At December 31, 2016 and 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 73,228	$ (923,934)	$ 89,649	$ -
Changes in assumptions	302,850	-	-	-
Net differences between projected and actual earnings on pension plan investments	1,772,267	-	299,459	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,107	(4,271)	-	(5,116)
Employer contributions subsequent to the measurement date	255,107	-	257,545	-
Total	$ 2,406,559	$ (928,205)	$ 646,653	$ (5,116)

Note 11 Employee Retirement Plans – Wisconsin Retirement System (WRS) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Deferred outflows of resources related to pension resulting from the Hospital's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended December 31	Increase (Decrease) in Pension Expense
2017	$ 333,297
2018	333,297
2019	333,297
2020	242,507
2021	(19,151)

Note 11 Employee Retirement Plans – Wisconsin Retirement System (WRS) (Continued)

Actuarial Assumptions

The total pension liability in the actuarial valuation used for the years ended December 31, 2016 and 2015, was determined using the following actuarial assumptions, applied to all periods included in the investment:

	2016	2015
Actuarial valuation date	December 31, 2014	December 31, 2013
Measurement date of net pension liability (asset)	December 31, 2015	December 31, 2014
Actuarial cost method	Entry age	Entry age
Asset valuation method	Fair market value	Fair market value
Long-term expected rate of return	7.2%	7.2%
Discount rate	7.2%	7.2%
Salary increases:		
Inflation	3.2%	3.2%
Seniority/merit	0.2% - 5.6%	0.2% - 5.8%
Mortality	Wisconsin 2012 Mortality Table	Wisconsin 2012 Mortality Table
Post-retirement adjustments*	2.1%	2.1%

*No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience, and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 - 2011. The total pension liability for December 31, 2015 and 2014, is based upon a rollforward of the liability calculated from the December 31, 2014 and 2013, actuarial valuations.

Note 11 Employee Retirement Plans – Wisconsin Retirement System (WRS) (Continued)

Actuarial Assumptions (Continued)

Long-term expected rate of return on plan assets: The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	December 31, 2016		December 31, 2015	
Asset Class	Long-Term Real Rate of Return	Target Allocation	Long-Term Real Rate of Return	Target Allocation
Core fund:				
U.S. Equities	4.7%	23%	5.3%	21%
International Equities	5.6%	22%	5.7%	23%
Fixed Income	1.6%	37%	1.7%	36%
Inflation Sensitive Assets	1.4%	20%	2.3%	20%
Real Estate	3.6%	7%	4.2%	7%
Private Equity/Debt	6.5%	7%	6.9%	7%
Multi-Asset	3.8%	4%	3.9%	6%
Cash	0.0%	0%	0.9%	(20%)
Variable fund:				
U.S. Equities	4.7%	70%	5.3%	70%
International Equities	5.6%	30%	5.7%	30%

Note 11 Employee Retirement Plans – Wisconsin Retirement System (WRS) (Continued)

Actuarial Assumptions (Continued)

Single Discount Rate: A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long-term bond rate of 3.57%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Agency's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate: The following presents the Hospital's proportionate share of the net pension liability (asset) calculated using the current discount rate as well as what the Hospital's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	2016		2015	
	Discount Rate	Net Pension Liability (Asset)	Discount Rate	Net Pension Liability (Asset)
1% decrease to discount rate	6.2%	$ 3,080,767	6.2%	$ 1,744,613
Current discount rate	7.2%	439,230	7.2%	(618,400)
1% increase to discount rate	8.2%	(1,623,858)	8.2%	(2,484,612)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at http://etf.wi.gov/publications/cafr.htm.

Note 12 Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers' compensation; and health care of its employees. All of these risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in any of the past three years. There were no significant reductions in coverage compared to prior year.

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on an occurrence basis subject to a limit of $1,000,000 per claim and an annual aggregate limit of $3,000,000. Should the occurrence policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Note 13 Concentrations of Credit Risk

Financial instruments that potentially subject the Hospital to possible credit risk consist principally of patient receivables.

Patient receivables consist of amounts due from patients, their insurers, or governmental agencies (primarily Medicare and Medicaid) for health care provided to the patients. The majority of the Hospital's patients are from Darlington, Wisconsin, and the surrounding area. The mix of receivables from patients and third-party payors was as follows at December 31:

	2016	2015
Medicare and Medicare Advantage Plans	22%	34%
Medicaid and Medicaid HMO Plans	7%	9%
Other third-party payors	50%	44%
Private pay	21%	13%
Totals	100%	100%

Note 14 Laws and Regulations

The health care 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, accreditation, government health care program participation requirements, reimbursement for patient services, and billing regulations. Government activity with respect to investigations and allegations concerning possible violations of such regulations by health care providers has increased. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed. Management believes that the Hospital is in compliance with applicable government laws and regulations. While no significant regulatory inquiries have been made of the Hospital, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Note 15 Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the classifications used in 2016.

Note 16 Subsequent Events

Clinic Purchase

Effective January 2, 2017, the Hospital purchased the real estate of a local clinic practice at a purchase price of $920,000. The purchase was funded through $1,300,000 general obligation debt of Lafayette County with a 10 year promissory note at a rate of 2.29%. Graduated payment of principal and interest are as follows:

- February 4, 2018 – January 4, 2019 $8,333.33 per month
- February 4, 2019 – January 4, 2020 10,416.67 per month
- February 4, 2020 – January 4, 2021 12,500.00 per month
- February 4, 2021 – January 4, 2022 14,583.33 per month
- February 4, 2022 – December 4, 2026 15,001.83 per month
- Final payment of remaining balance including interest due January 4, 2027

Previously, on December 31, 2016, the Hospital had purchased the operations of the local clinic practice at a purchase price of $160,749.

Note 16 Subsequent Events (Continued)

Hospital Affiliation Agreement

Effective January 12, 2017, the Hospital entered into an affiliation agreement with Meriter Hospital, Inc., an unrelated health care organization. The purpose of the affiliation is to improve the quality and coordination of care in the region and to improve patient access to care. The agreement is for a two year term with an automatic renewal for periods of one year, unless notice is given 60 days prior to January 12th of each year.

The affiliation agreement includes a base affiliation fee of 0.6% of the Hospital's annual operating expenses, divided into 12, equal monthly payments, not to exceed $85,000 for the initial term. Additional fees outside the base fee shall be paid at actual cost plus an administrative fee.

Electronic Health Records System

Effective May 22, 2017, the Hospital entered into an agreement with Iowa Health System d/b/a Unity Point Health, an unrelated health care organization, to obtain access to an electronic health records system on a shared platform in which the Hospital can access and upgrade systems through a sublicensing and hosting arrangement. The one-time license and implementation fee for hospital-related services is estimated at $680,000 with an annual maintenance fee of $200,000. The one-time license and implementation fee for clinic-related services is estimated at $203,000 with an annual maintenance fee of $36,000. Additional third party software is available at various fees.

The agreement begins on the effective date and continues for a period of three years with automatic renewal for one year terms until termination per the agreement.

As of July 25, 2017, the Hospital has drawn approximately $340,000 on a $1,400,000 line of credit to fund the electronic health records system.

Note 16 Subsequent Events (Continued)

Provider-Based Rural Health Clinic

Effective July 21, 2017, Lafayette County was designated a Health Professional Shortage Area (HPSA). With this designation, the Hospital can apply for rural health clinic status. Under this designation certain physician and professional services rendered to Medicare and Medicaid beneficiaries qualify for reimbursement as Medicare-approved rural health clinic services. Qualifying services are reimbursed based on a cost reimbursement methodology. All other physician and professional services rendered to Medicare and Medicaid beneficiaries are paid based on prospectively determined fee schedules.

Required Supplementary Information

Memorial Hospital of Lafayette County

Schedules of the Employer's Proportionate Share of the Net Pension Liability (Asset) and Employer Contributions – Wisconsin Retirement System

Years Ended December 31, 2016 and 2015

SCHEDULE OF THE EMPLOYER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) WISCONSIN RETIREMENT SYSTEM (WRS)

December 31, 2016 and 2015

	2016	2015
Measurement date	12/31/15	12/31/14
Hospital's proportion of the net pension liability (asset)	0.02702986%	0.02517635%
Hospital's proportionate share of the net pension liability (asset)	$ 439,230	$ (618,400)
Hospital's covered-employee payroll during the measurement period	$ 3,803,035	$ 3,789,253
Hospital's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	11.55%	(16.32%)
Plan fiduciary net position as a percentage of the total pension liability (asset)	98.20%	102.74%

SCHEDULE OF EMPLOYER CONTRIBUTIONS WISCONSIN RETIREMENT SYSTEM (WRS)

December 31, 2016 and 2015

	2016	2015
Contractually required contribution	$ 255,107	$ 257,545
Contributions in relation to the contractually required contribution	(255,107)	(257,545)
Contribution deficiency (excess)	$ -	$ -
Hospital's covered-employee payroll	$ 3,865,252	$ 3,803,035
Contributions as a percentage of covered-employee payroll	6.6%	6.8%

Notes to the Schedules:

Changes of benefit terms: There were no changes of benefit terms for any participating employer in WRS.

Changes of assumptions: There were no changes in the assumptions.

Supplementary Information

Memorial Hospital of Lafayette County

Schedules of Net Patient Service Revenue

Years Ended December 31, 2016 and 2015

	2016	2015
Operating revenue:		
Inpatient services:		
Routine nursing care	$ 1,208,012	$ 978,804
Incremental nursing	47,696	45,386
Nursing - OB/nursery	-	49,782
Labor and delivery room	-	21,722
Nursing - Swingbed	567,664	361,109
Medical and surgical supplies	115,260	150,753
Operating, recovery room, and AMB surgery	1,963,743	2,774,644
Emergency room	47,146	50,307
Anesthesia	299,024	519,198
Laboratory	212,028	217,492
Radiology	275,181	215,533
Pharmacy	468,109	495,314
Rehabilitation services	368,666	287,424
Cardiopulmonary care	329,841	273,548
Total inpatient services	5,902,370	6,441,016
Outpatient services:		
Medical and surgical supplies	122,938	121,144
Operating and recovery room	2,408,877	2,483,253
Observation	712,198	675,815
Emergency room	2,422,245	2,248,592
Emergency room physician	621,954	584,359
Urgent care	74,834	58,439
Treatment room	200,052	183,205
Clinic service	1,445,336	1,466,811
Anesthesia	690,885	789,870
Laboratory	1,156,568	1,085,341
Radiology	4,244,436	4,193,348
Pharmacy	812,382	923,582
Rehabilitation services	822,663	779,159
Cardiopulmonary care	453,761	529,644
Cardiac rehabilitation	104,588	98,932
Other	1,722	2,469
Total outpatient services	16,295,439	16,223,963

Memorial Hospital of Lafayette County

Schedules of Net Patient Service Revenue (Continued)

Years Ended December 31, 2016 and 2015

	2016	2015
Other service:		
Clinic service	$ 113,101	$ 105,928
Laboratory	9,702	10,648
Physical therapy	311,750	364,575
Total other service	434,553	481,151
Total patient service revenue	22,632,362	23,146,130
Deductions from revenue:		
Medicare discounts and adjustments	(4,280,298)	(4,742,808)
Medicaid discounts and adjustments	(1,154,258)	(1,291,368)
Other discounts and adjustments	(3,016,952)	(2,435,804)
Total deductions from revenue	(8,451,508)	(8,469,980)
Net patient service revenue	14,180,854	14,676,150
Provision for bad debts	157,429	384,359
Net patient service revenue (net of provision for bad debts)	$ 14,023,425	$ 14,291,791

Memorial Hospital of Lafayette County

Schedules of Operating Expenses

Years Ended December 31, 2016 and 2015

	2016	2015
Operating expenses:		
Medical and surgical	$ 677,405	$ 975,351
Observation	486,071	283,857
Obstetrical/nursery	-	97,347
Labor and delivery room	-	16,177
Swing bed	450,571	183,026
Operating/recovery room	967,235	1,270,367
Ambulatory surgical care	40,008	31,988
Emergency room	1,777,611	1,731,676
Clinical services	877,015	873,834
Treatment room	80,730	49,675
Anesthesiology	555,791	557,317
Laboratory	700,033	698,577
Radiology	1,169,549	1,232,348
Pharmacy	458,296	431,598
Physical therapy	946,618	928,129
Respiratory care	322,112	322,446
Cardio pulmonary care	41,421	47,185
Dietary	289,076	282,399
Housekeeping/laundry	234,264	203,068
Plant operation	153,220	180,937
Maintenance	258,073	254,687
Material management	107,679	103,315
Administration	1,364,766	974,621
Business office	727,949	514,022
Medical records	359,459	362,085
Nursing administration	347,421	413,320
Telephone/television	25,398	46,760
Community outreach	127,844	124,289
IT department	96,523	96,445
Electronic health records	123,696	76,706
Clinics	8,229	-
Other	1,496	5,240
Total operating expenses	$ 13,775,559	$ 13,368,792

Compliance

WIPFLi LLP

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Board of Trustees
Memorial Hospital of Lafayette County
Darlington, Wisconsin

We have audited, in accordance with the auditing standards generally accepted in the United States 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 Memorial Hospital of Lafayette County, which comprise the statement of net position as of December 31, 2016, and the related statements of revenue, expenses, and changes in net position and cash flows as of December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated July 25, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Memorial Hospital of Lafayette County'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 Memorial Hospital of Lafayette County's internal control. Accordingly, we do not express an opinion on the effectiveness of Memorial Hospital of Lafayette County'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 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 did identify certain deficiencies in internal control that we consider to be material weaknesses, which are described in the accompanying schedule of findings as items 2016.001, 2016.002, 2016.003, and 2016.004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Memorial Hospital of Lafayette County'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*.

Responses to Findings

Memorial Hospital of Lafayette County's responses to the findings identified in our audit are described in the accompanying schedule of findings. Memorial Hospital of Lafayette County's responses were not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Memorial Hospital of Lafayette County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Memorial Hospital of Lafayette County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wipfli LLP

Wipfli LLP

July 25, 2017
Eau Claire, Wisconsin

Memorial Hospital of Lafayette County

Schedule of Findings

Year Ended June 30, 2016

Finding 2016.001—Financial Accounting and Reporting

Condition – The Hospital's internal control over financial reporting does not end at the general ledger, but extends to the financial statements and notes. As part of our professional services for the year ended December 31, 2016, we were requested to draft the financial statements and accompanying notes to the financial statements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Because the Hospital relies on Wipfli LLP to provide the necessary understanding of current accounting and disclosure principles in the preparation of the financial statements and notes, a material weakness exists in the Hospital's internal controls.

Criteria – *Government Auditing Standards* considers the inability to report financial data reliably in accordance with GAAP to be an internal control deficiency.

Effect – As a result of not having an individual trained in the preparation of GAAP basis financial statements, the Hospital is not able to report financial data reliably in accordance with GAAP.

Recommendation – We recommend that management and those charged with governance continue to evaluate whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management's Response – The Hospital does not have the resources and staff to prepare the financial statements and notes, but will continue to oversee the auditor's services and review and approve the financial statements and notes.

Schedule of Findings (Continued)

Year Ended June 30, 2016

Finding 2016.002–Audit Adjustments

Condition – During our audit, Wipfli LLP proposed a number of adjusting journal entries that were deemed material in relation to the audited financial statements. The adjusting journal entries were based on financial calculations and audit procedures performed by Wipfli LLP that were not performed during the Hospital's normal financial close process. Since the Hospital's internal controls did not discover these adjustments prior to our audit, a material weakness exists in the Hospital's controls over financial reporting.

Criteria – Material adjusting journal entries not prepared by the Hospital are considered to be an internal control weakness.

Effect – Proper recording and reporting of financial information may not occur in a timely manner.

Recommendation – We recommend that all accounts be reconciled and adjustments be posted to the accounting records on a monthly basis.

Management's Response – The Hospital will work to establish policies and procedures to reduce the number of adjusting journal entries proposed by the auditors.

Finding 2016.003–Account Reconciliations

Condition – During our audit, we noticed discrepancies between subsidiary account ledger balances and the related balances on the general ledger. Because account reconciliations were not performed for all material general ledger accounts, a material weakness exists in the Hospital's internal control.

Criteria – *Government Auditing Standards* consider the inability to accurately adjust account balances to be an internal control deficiency.

Effect – Since the Hospital's internal control design did not include monthly account reconciliations, a material weakness existed in the Hospital's controls over accounting estimates and adjustments.

Recommendation – We recommend that all accounts be reconciled and adjustments be posted to the accounting records on a monthly basis with any discrepancies investigated and adjusted.

Management's Response – The Hospital plans to reconcile accounts on the general ledger to the detail on a regular basis.

Memorial Hospital of Lafayette County

Schedule of Prior Year's Findings and Questioned Costs

Year Ended June 30, 2016

Finding 2016.004–Segregation of Duties

Condition – The size of the Hospital's office staff precludes a proper segregation of functions to ensure adequate internal control. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. This is not unusual in entities this size, but the Board of Trustees should continue to be aware of this condition and to realize the concentration of duties and responsibilities in a limited number of individuals is not desirable for an effective system of internal control. Under those conditions, the most effective controls lie in the Board of Trustees' knowledge of matters relating to the Hospital's operations; however, a material weakness exists in the Hospital's internal controls.

Criteria – The lack of proper segregation of duties is considered an internal control weakness.

Effect – As a result of not having a sufficient number of individuals in the accounting department to segregate duties, the Hospital has an internal control weakness.

Recommendation – We recommend that management and those charged with governance continue to evaluate whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management's Response – The Hospital does not have the resources available to increase staff size and address this internal control deficiency. The Board of Trustees and management are aware of the incompatible duties and will continue to provide oversight and monitor the Hospital's operations.