

**Teton Valley Hospital  
A Component Unit of  
Teton County, Idaho**

Basic Financial Statements and  
Independent Auditors' Reports

September 30, 2008 and 2007

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Teton Valley Hospital  
A Component Unit of Teton County, Idaho  
Driggs, Idaho

We have audited the accompanying basic financial statements of Teton Valley Hospital, a component unit of Teton County, Idaho (the Hospital) as of and for the year ended September 30, 2008. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Hospital as of September 30, 2007, before restatement, were audited by other auditors whose report dated April 30, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in *Note 2* that were applied to restate the 2007 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2009, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* and is important for assessing the results of our audit.

The Hospital has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America have determine is necessary to supplement, although not required to be part of, the basic financial statements.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
March 23, 2009

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Balance Sheets**  
**September 30, 2008 and 2007**

<b>ASSETS</b>	<b>2008</b>	<b>2007</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 53,058	\$ -
Receivables:		
Patient accounts, net of estimated uncollectibles of \$859,858 and \$462,669, respectively	2,760,131	3,150,712
Estimated third-party payor settlements	707,297	-
Capital grants	168,415	-
Inventories	476,359	515,820
Prepaid expenses	19,324	63,928
Total current assets	4,184,584	3,730,460
<i>Noncurrent assets</i>		
Deferred financing costs	34,792	39,282
Net pension benefit	-	104,815
Capital assets, net	2,995,558	3,179,674
Goodwill	-	58,293
Total noncurrent assets	3,030,350	3,382,064
<b>Total assets</b>	<b>\$ 7,214,934</b>	<b>\$ 7,112,524</b>

*See accompanying notes to basic financial statements.*

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Balance Sheets (Continued)**  
**September 30, 2008 and 2007**

<b>LIABILITIES AND NET ASSETS</b>	<b>2008</b>	<b>2007</b>
<i>Current liabilities</i>		
Checks written in excess of deposits	\$ -	\$ 56,750
Current maturities of long-term debt	121,753	110,921
Current maturities of capital lease obligations	154,222	241,991
Operating line of credit	821,075	-
Loan payable to Teton County	735,000	135,000
Accounts payable	769,251	901,107
Accrued payroll and related liabilities	1,460,394	647,291
Accrued interest payable	13,006	14,349
Estimated third-party payor settlements	-	116,591
Total current liabilities	4,074,701	2,224,000
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	1,012,389	1,183,797
Capital lease obligations, less current maturities	112,154	280,635
Net pension obligation	117,378	-
Total noncurrent liabilities	1,241,921	1,464,432
Total liabilities	5,316,622	3,688,432
<i>Net assets</i>		
Invested in capital assets, net of related debt	1,481,826	1,310,556
Unrestricted	416,486	2,113,536
Total net assets	1,898,312	3,424,092
<b>Total liabilities and net assets</b>	<b>\$ 7,214,934</b>	<b>\$ 7,112,524</b>

*See accompanying notes to basic financial statements.*

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
**Years Ended September 30, 2008 and 2007**

	2008	2007
<i>Operating revenues</i>		
Net patient revenue, net of provision for bad debts of \$2,245,262 and \$703,065, respectively	\$ 11,208,871	\$ 9,379,693
Other	200,398	133,169
Day care revenue	89,655	73,780
Teton County Ambulance District contract	283,836	353,486
<b>Total operating revenues</b>	<b>11,782,760</b>	<b>9,940,128</b>
<i>Operating expenses</i>		
Salaries and wages	7,721,544	5,495,788
Employee benefits	1,223,282	877,008
Purchased services	1,827,774	1,346,038
Supplies	1,261,180	1,228,271
Leases and rent	120,959	94,079
Repairs and maintenance	186,118	154,583
Utilities	202,954	140,727
Insurance	156,957	140,349
Depreciation and amortization	590,734	668,620
Other expenses	430,164	390,120
<b>Total operating expenses</b>	<b>13,721,666</b>	<b>10,535,583</b>
<i>Operating loss</i>	<b>(1,938,906)</b>	<b>(595,455)</b>
<i>Nonoperating revenue (expense)</i>		
Interest income	825	12,933
Grants and contributions	148,384	125,348
Teton County appropriation	32,784	31,829
Gain (loss) on disposal of capital assets	10,108	(19,880)
Interest expense	(134,994)	(118,689)
<b>Total nonoperating revenue (expense), net</b>	<b>57,107</b>	<b>31,541</b>
Excess of expenses over revenues before capital grants and capital contributions from Foundation	<b>(1,881,799)</b>	<b>(563,914)</b>
<i>Capital grants</i>	<b>168,415</b>	<b>-</b>
<i>Capital contributions from Foundation</i>	<b>187,604</b>	<b>180,077</b>
Decrease in net assets	<b>(1,525,780)</b>	<b>(383,837)</b>
Restated, net assets, beginning of year	<b>3,424,092</b>	<b>3,807,929</b>
<b>Net assets, end of year</b>	<b>\$ 1,898,312</b>	<b>\$ 3,424,092</b>

See accompanying notes to basic financial statements.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Statements of Cash Flows**  
**Years Ended September 30, 2008 and 2007**

	2008	2007
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 10,775,564	\$ 8,196,257
Payments to employees	(7,909,530)	(6,102,434)
Payments to suppliers and contractors	(4,232,354)	(2,891,872)
Other receipts	573,889	560,435
<b>Net cash used in operating activities</b>	<b>(792,431)</b>	<b>(237,614)</b>
<i>Cash flows from noncapital financing activities</i>		
Proceeds from issuance of short-term notes payable	600,000	-
Proceeds from issuance on line of credit	4,487,589	-
Payments on line of credit	(3,666,514)	-
Interest paid	(38,385)	(11,173)
Checks written in excess of cash in bank	-	56,750
Receipts from Teton County	32,784	31,829
Receipts of grants and contributions	148,384	125,348
<b>Net cash provided by noncapital financing activities</b>	<b>1,563,858</b>	<b>202,754</b>
<i>Cash flows from capital and related financing activities</i>		
Proceeds from issuance of long-term debt	-	56,000
Principal paid on long-term debt	(160,576)	(102,627)
Principal paid on capital lease obligations	(256,250)	(233,861)
Interest on long-term debt	(93,462)	(111,433)
Sale of capital assets	19,102	-
Purchase of property and equipment	(228,008)	(119,048)
<b>Net cash used in capital and related financing activities</b>	<b>(719,194)</b>	<b>(510,969)</b>
<i>Cash flow from investing activities</i>		
Cash paid for acquisition of clinic	-	(137,466)
Interest received	825	12,933
<b>Net cash provided by (used in) investing activities</b>	<b>825</b>	<b>(124,533)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>53,058</b>	<b>(670,362)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>-</b>	<b>670,362</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 53,058</b>	<b>\$ -</b>

See accompanying notes to basic financial statements.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Statements of Cash Flows (Continued)**  
**Years Ended September 30, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b><i>Reconciliation of Operating Loss to Net Cash Used In Operating Activities</i></b>		
Operating loss	\$ (1,938,906)	\$ (595,455)
<i>Adjustments to reconcile operating loss to net cash used in operating activities</i>		
Depreciation and amortization	590,734	668,620
Provision for bad debts	2,245,262	703,065
Decrease (increase) in assets:		
Patient receivables	(1,854,681)	(2,003,092)
Estimated third-party payor settlements	(707,297)	-
Inventories	39,461	6,551
Prepaid expenses	44,604	(26,920)
Goodwill	58,293	-
Net pension benefit	104,815	(104,815)
Increase (decrease) in liabilities:		
Accounts payable	(131,856)	622,664
Estimated third-party payor settlements	(116,591)	116,591
Accrued payroll and related liabilities	756,353	375,177
Net pension obligation	117,378	-
<b>Net cash used in operating activities</b>	<b>\$ (792,431)</b>	<b>\$ (237,614)</b>

***Noncash Capital and Related Financing Activities***

The Hospital received donated equipment valued at \$187,604 and \$180,077 during the years ended September 30, 2008 and 2007.

During the year ended September 30, 2007, the Hospital acquired equipment with a cost of \$22,625 through the issuance of a capital lease obligation.

*See accompanying notes to basic financial statements.*

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements**  
**Years Ended September 30, 2008 and 2007**

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

**a. Reporting Entity**

Teton Valley Hospital (the Hospital) operates a 13-bed critical access hospital and rural health clinic in Driggs, Idaho. The County Commissioners of Teton County, Idaho (the County) serve on the Hospital's Board of Trustees and appoint the remaining two Board members of the Board of Trustees. The Hospital may not issue debt without the County's approval. For these reasons, the Hospital is considered to be a component unit of the County. The Hospital Board consists of five Board members who serve three-year terms. 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 or financial relationships with the Hospital.

Teton Valley Health Care 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 provided contributions to the Hospital during 2008 and 2007 in the amounts of approximately \$323,000 and \$263,000 for various operational and capital support.

The Foundation has a note payable to Well Fargo Bank N.A. to finance the Thrift Store building purchase. The note is due October 2022, payable in monthly installments of \$996, including interest of 7.5%, and is collateralized by the Thrift Store building.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2008 and 2007**

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

**a. Reporting Entity (continued)**

The Foundation's condensed balance sheets at September 30, 2008 and 2007 are summarized as follows:

	<b>2008</b>	<b>2007</b>
<i>Assets</i>		
Cash and investments	\$ 154,605	\$ 235,170
Accounts receivable	20,336	-
Inventories	90,000	110,000
Property and equipment, net	120,783	128,873
<b>Total assets</b>	<b>\$ 385,724</b>	<b>\$ 474,043</b>
<i>Liabilities</i>		
Accrued expenses	\$ 27,073	\$ -
Long-term debt	129,408	134,980
<b>Total liabilities</b>	<b>156,481</b>	<b>134,980</b>
<i>Net assets</i>		
Temporarily restricted	21,607	-
Unrestricted	207,636	339,063
<b>Total net assets</b>	<b>229,243</b>	<b>339,063</b>
<b>Total liabilities and net assets</b>	<b>\$ 385,724</b>	<b>\$ 474,043</b>

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2008 and 2007**

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

**a. Reporting Entity (continued)**

The Foundation's condensed statements of revenues, expenses, and changes in net assets for the years ended September 30, 2008 and 2007, are summarized as follows:

	<b>2008</b>	<b>2007</b>
<i>Revenues</i>		
Thrift Store revenue	\$ 192,051	\$ 158,220
Special event revenue, net of expenses of \$20,198 and \$12,364	41,212	75,949
In-kind donations from Teton Valley Hospital	38,248	100,451
Donations and grants	157,375	176,974
Other revenue	4,403	9,106
<b>Total revenues</b>	<b>433,289</b>	<b>520,700</b>
<i>Expenses</i>		
Contributions to Hospital	312,498	262,393
Other expense	230,611	142,542
<b>Total expenses</b>	<b>543,109</b>	<b>404,935</b>
Change in net assets	<b>(109,820)</b>	115,765
Net assets, beginning of year	<b>339,063</b>	223,298
<b>Net assets, end of year</b>	<b>\$ 229,243</b>	<b>\$ 339,063</b>

**b. Summary of Significant Accounting Policies**

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**Enterprise fund accounting** – The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Accounting*, as amended, the Hospital has elected to apply provisions of all relevant pronouncements of the Financial Accounting Standards Board, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2008 and 2007**

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

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

***Patient receivables*** – Receivables arising from patient service revenues are reduced by an allowance for uncollectible accounts and contractual adjustments, based on experience, third-party contractual arrangements, and any unusual circumstances which may affect the ability of patients to meet their obligations. Accounts deemed uncollectible are charged against this allowance.

***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 operation of the Hospital.

***Deferred financing costs*** – Deferred financing costs are legal, accounting, underwriting fees, printing costs, and other expenses associated with the issuance of bonds. These costs have been capitalized and are being amortized to interest expense over the terms of the bonds.

***Goodwill*** – The Hospital recorded goodwill in connection with the purchase of a clinic in 2007. The unamortized value of purchased goodwill is required to be evaluated annually to determine whether the amount reflected on the balance sheets as an asset has been impaired — that is, whether the clinic’s fair value as a going concern exceeds the carrying value of its net assets, including recorded goodwill. In management’s opinion, there has been impairment to the value of recorded goodwill as of September 30, 2008, and the value has been written down to zero.

***Capital assets*** – The District capitalizes assets whose costs exceed \$5,000 and have an estimated useful life of at least two years. Major expenses for capital assets, including leases that increase the useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses as incurred. Capital assets are reported at historical cost or their estimated fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

The estimated useful lives of capital assets are as follows:

Buildings and improvements	5 to 30 years
Land improvements	15 years
Fixed equipment	5 to 20 years
Major movable equipment	3 to 20 years

***Compensated absences*** – The Hospital’s employees earn paid time off at varying rates depending on years of service. Employees with up to five years of service are allowed to accrue a maximum of 160 hours, and employees with more than five years of service are allowed to accrue 240 hours. The estimated amount of paid time off is expensed and reported as a component of accrued compensation and related liabilities in the balance sheets as it is earned.

Employees also earn extended illness bank benefits based on a standard rate per hour worked up to a maximum of 480 hours. Unused extended illness bank hours are not paid upon termination of employment. Extended illness bank benefits are expensed when taken.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2008 and 2007**

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

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

*Net assets* – Net assets of the Hospital are classified into three components. *Net assets invested in capital assets, net of related debt* consist 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 assets* are net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. The Hospital had no restricted net assets at September 30, 2007 or 2008. *Unrestricted net assets* are remaining net assets that do not meet the definition of invested in capital assets, net of related debt or restricted.

*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.

*Operating revenues and expenses* – The Hospital's statements of revenues, expenses, and changes in net assets 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 principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

*Net patient service revenues* – The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

*Charity care* – The Hospital does not have formal criteria for financial hardship assistance it provides without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined as charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care provided. These records include the amount of charges forgone for services and supplies furnished. Charges associated with charity care of \$10,964 and \$37,416 were provided for the years ended September 30, 2008 and 2007, respectively.

*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.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2008 and 2007**

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

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

*Reclassifications* – Certain reclassifications have been made to the 2007 financial statements to conform with the classifications used in the 2008 financial statements with no effect on the 2007 change in net assets.

**2. Prior Period Adjustments:**

The Hospital has restated its 2007 financial statements for the following errors:

- Physician productivity bonuses of \$208,308 had been earned but not accrued.
- A net pension benefit of \$104,815 had not been recognized.
- Equipment with a value of \$22,625 had not been recorded.
- Depreciation was overstated by \$11,583.

The cumulative impact of these errors on the 2007 net assets was to lower net assets and the change in net assets by \$69,277.

**3. Compliance and Accountability:**

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of various statutes and regulations by healthcare providers. 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. Management believes that the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations. If the Hospital is found in violation of these laws, the Hospital could be subject to substantial monetary fines, civil and criminal penalties, and exclusion from participation in the Medicare and Medicaid programs.

The Hospital is in the process of self-disclosing potential billing errors to the Medicare fiscal intermediary. The impact of this self-disclosure is not known at this time.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2008 and 2007**

**4. Net Patient Service Revenue:**

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

- *Medicare* – The Hospital is licensed as a critical access hospital and rural health clinic. The Hospital is reimbursed for most inpatient, outpatient, and rural health clinic services at cost with final settlement determined after submission of annual cost reports by the Hospital subject to audits thereof by the Medicare intermediary. Nonrural health clinic physician services are reimbursed based on fee schedules. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.
- *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. Rural health clinic visits are reimbursed at prospectively determined rates. Nonrural health clinic physician services are reimbursed based on fee schedules. 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.
- *Other* – The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, fee schedules, and prospectively determined daily rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 25% and 8%, respectively, of the Hospital's net patient revenue for the year ended September 30, 2008. 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 \$257,000 in 2008 due to differences between original estimates and final settlements or revised estimates.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2008 and 2007**

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

A summary of the Hospital's patient service revenue and contractual adjustments is as follows:

	<b>Years Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<i>Gross patient service revenue</i>	\$ 15,176,411	\$ 11,030,877
Less charity care	10,964	37,416
	<b>15,187,375</b>	<b>11,068,293</b>
<i>Contractual adjustments</i>		
Medicare	127,242	304,381
Medicaid	366,631	320,400
Other	1,239,369	360,754
<i>Provision for bad debts</i>	<b>2,245,262</b>	<b>703,065</b>
	<b>3,978,504</b>	<b>1,688,600</b>
<b>Net patient service revenue</b>	<b>\$ 11,208,871</b>	<b>\$ 9,379,693</b>

**5. Bank Deposits:**

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, 2008 and 2007, the Hospital did not have any uninsured deposit balances.

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.

Idaho Code, Title 67, Chapter 12, provides authorization for investment of pooled funds in the following general types:

1. Certain revenue bonds, general obligation bonds, local improvement district bonds, and registered warrants of state and local governmental entities.
2. Time deposit accounts, tax anticipation, and interest-bearing notes.
3. Bonds, treasury bills, interest-bearing notes, or other similar obligations of the United States government and the Farm Credit System.
4. Repurchase agreements.

The Hospital had no investments as of September 30, 2008 and 2009.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2008 and 2007**

**6. Patient Accounts Receivable:**

Patient accounts receivable at September 30, 2008 and 2007, consisted of these amounts:

	<b>2008</b>	<b>2007</b>
Receivables from patients and their insurance carriers	\$ 2,906,501	\$ 2,692,909
Receivables from Medicare	462,847	703,995
Receivables from Medicaid	250,641	216,477
Total patient accounts receivable	<b>3,619,989</b>	3,613,381
Less allowance for uncollectible amounts	<b>859,858</b>	462,669
<b>Patient accounts receivable, net</b>	<b>\$ 2,760,131</b>	<b>\$ 3,150,712</b>

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2008 and 2007**

**7. Capital Assets:**

Capital asset additions, retirements, and balances at September 30, 2008, were as follows:

	Balance September 30, 2007	Additions	Retirements	Balance September 30, 2008
<i>Capital assets not being depreciated</i>				
Land	\$ 92,671	\$ -	\$ -	\$ 92,671
<i>Capital assets being depreciated</i>				
Buildings and improvements	4,197,143	-	-	4,197,143
Land improvements	3,300	-	-	3,300
Fixed equipment	272,445	26,161	-	298,606
Major movable equipment	3,970,919	389,451	(632,550)	3,727,820
Total capital assets being depreciated	8,443,807	415,612	(632,550)	8,226,869
<i>Less accumulated depreciation for</i>				
Buildings and improvements	(2,593,569)	(141,997)	-	(2,735,566)
Land improvements	(1,769)	(220)	-	(1,989)
Fixed equipment	(175,907)	(14,627)	-	(190,534)
Major movable equipment	(2,585,559)	(433,890)	623,556	(2,395,893)
Total accumulated depreciation	(5,356,804)	(590,734)	623,556	(5,323,982)
<i>Total capital assets being depreciated, net</i>	3,087,003	(175,122)	(8,994)	2,902,887
<b>Capital assets, net</b>	<b>\$ 3,179,674</b>	<b>\$ (175,122)</b>	<b>\$ (8,994)</b>	<b>\$ 2,995,558</b>

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2008 and 2007**

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

Capital asset additions, retirements, and balances at September 30, 2007, were as follows:

	Balance September 30, 2006	Additions	Retirements	Balance September 30, 2007
<i>Capital assets not being depreciated</i>				
Land	\$ 92,671	\$ -	\$ -	\$ 92,671
Construction in progress	112,817	1,136	(113,953)	-
Total capital assets not being depreciated	205,488	1,136	(113,953)	92,671
<i>Capital assets being depreciated</i>				
Buildings and improvements	4,281,881	-	(84,738)	4,197,143
Land improvements	3,300	-	-	3,300
Fixed equipment	272,445	-	-	272,445
Major movable equipment	3,632,233	399,788	(61,102)	3,970,919
Total capital assets being depreciated	8,189,859	399,788	(145,840)	8,443,807
<i>Less accumulated depreciation for</i>				
Buildings and improvements	(2,395,348)	(198,221)	-	(2,593,569)
Land improvements	(1,549)	(220)	-	(1,769)
Fixed equipment	(162,840)	(13,067)	-	(175,907)
Major movable equipment	(2,237,735)	(457,112)	109,288	(2,585,559)
Total accumulated depreciation	(4,797,472)	(668,620)	109,288	(5,356,804)
<i>Total capital assets being depreciated, net</i>	3,392,387	(268,832)	(36,552)	3,087,003
<b>Capital assets, net</b>	<b>\$ 3,597,875</b>	<b>\$ (267,696)</b>	<b>\$ (150,505)</b>	<b>\$ 3,179,674</b>

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2008 and 2007**

**8. Long-term Debt and Other Noncurrent Liabilities:**

A schedule of changes in the Hospital's noncurrent liabilities for the years ended September 30, 2008 and 2007, follows:

	Balance September 30, 2007	Additions	Reductions	Balance September 30, 2008	Amounts Due Within One Year
<i>Long-term debt</i>					
Revenue bonds					
2002 revenue bonds	\$ 1,308,164	\$ -	\$ (115,165)	\$ 1,192,999	\$ 121,753
1996 bond defeasance interest	(93,212)	-	10,755	(82,457)	-
2002 bond premium	25,971	-	(2,371)	23,600	-
First Bank of Idaho note payable	53,795	-	(53,795)	-	-
Total long-term debt	1,294,718	-	(160,576)	1,134,142	121,753
Capital lease obligations	522,626	-	(256,250)	266,376	154,222
Net pension obligation	-	117,378	-	117,378	-
<b>Total noncurrent liabilities</b>	<b>\$ 1,817,344</b>	<b>\$ 117,378</b>	<b>\$ (416,826)</b>	<b>\$ 1,517,896</b>	<b>\$ 275,975</b>

	Balance September 30, 2006	Additions	Reductions	Balance September 30, 2007	Amounts Due Within One Year
<i>Long-term debt</i>					
Revenue bonds					
2002 revenue bonds	\$ 1,417,098	\$ -	\$ (108,934)	\$ 1,308,164	\$ 106,781
1996 bond defeasance interest	(103,967)	-	10,755	(93,212)	-
2002 bond premium	28,214	-	(2,243)	25,971	-
First Bank of Idaho note payable	-	53,795	-	53,795	4,140
Total long-term debt	1,341,345	53,795	(100,422)	1,294,718	110,921
Capital lease obligations	733,862	22,625	(233,861)	522,626	241,991
<b>Total noncurrent liabilities</b>	<b>\$ 2,075,207</b>	<b>\$ 76,420</b>	<b>\$ (334,283)</b>	<b>\$ 1,817,344</b>	<b>\$ 352,912</b>

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2008 and 2007**

**8. Long-term Debt and Other Noncurrent Liabilities (continued):**

***Long-term debt:***

2002 Revenue bonds, dated June 26, 2002, in the original amount of \$1,797,000, payable in annual payments of \$189,992, including interest of 5.72% through June 2016, collateralized by the net revenues of the Hospital.

First Bank of Idaho note in the original amount of \$56,000, fully paid off in fiscal year 2008.

***Capital leases payable:***

Capital lease obligations, with imputed interest from 3.5% to 5.5%, with monthly payments from \$501 to \$13,967, collateralized by leased equipment, due 2009 through 2017.

The lease obligations are reflected in the Hospital's assets and liabilities. The assets acquired under the capital leases had a capitalized cost of \$912,152 in 2008 and 2007, and accumulated amortization of \$776,104 and \$632,477 as of September 30, 2008 and 2007, respectively.

Scheduled principal and interest payments on the long-term debt and capital lease obligations are as follows:

<b>Years Ending September 30,</b>	<b>Bonds Payable</b>	
	<b>Principal</b>	<b>Interest</b>
2009	\$ 121,753	\$ 68,240
2010	128,717	61,275
2011	136,080	53,913
2012	143,863	46,129
2013	152,092	37,900
2014-2017	510,494	59,483
	<b>\$ 1,192,999</b>	<b>\$ 326,940</b>

<b>Years Ending September 30,</b>	<b>Capital Lease Obligations</b>	
	<b>Principal</b>	<b>Interest</b>
2009	\$ 154,222	\$ 8,369
2010	22,927	4,758
2011	17,186	3,837
2012	10,725	3,242
2013	11,208	2,759
2014-2017	50,108	5,761
	<b>\$ 266,376</b>	<b>\$ 28,726</b>

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2008 and 2007**

**9. Short-term Debt:**

A schedule of changes in the Hospital's short-term debt for the years ended September 30, 2008 and 2007, follows:

	Balance September 30, 2007	Additions	Reductions	Balance September 30, 2008
Note payable to Teton County	\$ 135,000	\$ 600,000	\$ -	\$ 735,000
<b>Total short-term notes payable</b>	<b>\$ 135,000</b>	<b>\$ 600,000</b>	<b>\$ -</b>	<b>\$ 735,000</b>

  

	Balance September 30, 2006	Additions	Reductions	Balance September 30, 2007
Note payable to Teton County	\$ 135,000	\$ -	\$ -	\$ 135,000
<b>Total short-term notes payable</b>	<b>\$ 135,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 135,000</b>

A note payable with Teton County in the amount of \$135,000 was executed to purchase property located adjacent to the Hospital. Additional tax anticipation funds in the amount of \$600,000 were obtained from the County in 2008. The note payable is due on demand and bears no interest.

**10. Line of Credit:**

During 2008, the Hospital entered into an operational \$1,000,000 line of credit with United Bank of Idaho. The Hospital had draws and payments of \$485,000 during fiscal year 2008. The full balance was paid off using proceeds from a new Key Bank line of credit.

During 2008, the Hospital entered into an operational line of credit with Key Bank for \$1,500,000, collateralized by the Hospital's accounts receivable, inventory, and personal property. The line of credit charges interest at 4%. The Hospital had draws of \$821,075 outstanding at fiscal year end. The line of credit has certain covenants. The Hospital was not in compliance with these covenants as of September 30, 2008.

**11. Commitment:**

The Hospital entered into a contract with Teton Valley Medical Clinic dated January 1, 2007, for the lease of the Driggs Medical Clinic building. The agreement expires on December 31, 2009. Yearly commitments under this agreement are \$79,356 and \$19,839 in fiscal years 2009 and 2010.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2008 and 2007**

**12. Retirement Plans:**

Until 2004, the Hospital provided a defined benefit noncontributory pension plan (the Teton Valley Hospital Defined Benefit Plan) (the Plan) for all full-time employees who had completed one year of service and reached age 21. Benefits were based on years of service and career compensation. The Hospital does not maintain the accounting records, hold the investments, or administer the Plan. The Plan is a single employer system administered by Pensions Plus, Inc. Actuarial valuations for the Plan are performed annually. Benefit provisions and contribution requirements of plan members and the Hospital were established and can be amended by the Board of Trustees.

Effective December 31, 2003, the Hospital froze the defined benefit pension plan. Eligible employees will receive, upon retirement or termination, the benefits accrued on their behalf as of that date. This action is defined as a curtailment under Statement of Financial Accounting Standards Board (SFAS) No. 87, *Employers' Accounting for Pensions*, and eliminates accrual of additional benefits subsequent to the effective date. The Plan has not been terminated or settled as defined by SFAS No. 87 because the Plan participants have received neither lump-sum nor annuity contracts in exchange for their rights to receive pension benefits. Since the Plan has been frozen, there is no annual required contribution, but the unfunded portion (the Hospital's liability) is actuarially calculated each year.

The following table sets forth the Plan's funded status and amounts recognized in the Hospital's balance sheets. Unless otherwise indicated, information in this note is provided as of the latest actuarial valuation date of December 31, 2008.

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
<i>Actuarial present value of benefit obligations</i>		
Vested benefit obligation	\$ 300,924	\$ 394,147
Nonvested benefit obligation	603	1,988
Accumulated benefit obligation	<b>301,527</b>	396,135
Estimated market value of plan assets	<b>184,132</b>	500,936
<b>Net pension (obligation) benefit</b>	<b>\$ (117,395)</b>	<b>\$ 104,801</b>

The actuarially computed net periodic pension cost consisted of the following:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Interest cost on projected benefit obligation	\$ (27,728)	\$ (11,362)
Actual return on plan assets	<b>(126,672)</b>	47,128
<b>Net periodic pension cost</b>	<b>\$ (154,400)</b>	<b>\$ 35,766</b>

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2008 and 2007**

**12. Retirement Plans (continued):**

The annual required contribution for the current year was determined as part of the December 31, 2008, actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. The actuarial assumptions included (a) pre-retirement investment rate of return of 7%, and (b) post-retirement rate of return of 7%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. The effective interest rate used was 6%.

The Plan does not issue a stand-alone financial report and is not included in the report of a public employee retirement system or a report of another entity. The Plan's condensed balance sheets for the years ended December 31, 2008 and 2007, are summarized as follows:

<b>ASSETS</b>	<b>2008</b>	<b>2007</b>
Cash	\$ 517	\$ 17,075
Contribution receivable	8,943	3,500
Investments	174,672	480,361
<b>Total assets</b>	<b>184,132</b>	<b>500,936</b>
<b>LIABILITIES AND NET ASSETS</b>		
Net assets held in trust for pension benefits	184,132	500,936
<b>Total liabilities and net assets</b>	<b>\$ 184,132</b>	<b>\$ 500,936</b>

The Plan's condensed statements of revenues, expenses and changes in net assets for the years ended December 31, 2008 and 2007, are summarized as follows:

	<b>2008</b>	<b>2007</b>
Investment (loss) income	\$ (109,649)	\$ 55,733
Employer contributions	8,943	31,814
Total (loss) income	(100,706)	87,547
Pension distributions	216,098	247,766
Change in trust assets	(316,804)	(160,219)
Net assets, beginning of year	500,936	661,155
<b>Net assets, end of year</b>	<b>\$ 184,132</b>	<b>\$ 500,936</b>

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 Trustees  
Teton Valley Hospital  
A Component Unit of Teton County, Idaho  
Driggs, Idaho

We have audited the basic financial statements of Teton Valley Hospital (the Hospital) as of and for the year ended September 30, 2008, and have issued our report thereon dated March 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control. We consider all of the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the accompanying schedule of findings and responses, we consider all of the items except items 08-06, 08-12, 08-13, and 08-15 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of 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 did not reveal instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Hospital, in a separate letter dated March 23, 2009.

The Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Hospital's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Pgs 27-43 not included  
for this reason

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
March 23, 2009