

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

Basic Financial Statements and  
Independent Auditors' Reports

September 30, 2009 and 2008

**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 financial statements of the business-type activities of Teton Valley Hospital, a component unit of Teton County, Idaho (the Hospital) as of and for the year ended September 30, 2009, and the business-type activities and discretely presented component unit of Teton Valley Hospital as of September 30, 2008, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Hospital's discretely presented component unit, Teton Valley Hospital Foundation (the Foundation), which represents 5 percent, 6 percent, and 2 percent, respectively, of the assets, net assets, and revenues of the business-type activities for the year ended September 30, 2009. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation for the year ended September 30, 2009, is based on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinions.

In our report dated February 19, 2010, we reported that the financial statements of Teton Valley Hospital Foundation had not been audited, and the Foundation's financial activities are included in the Hospital's financial statements as a discretely presented component unit. Our opinion stated: except for the effects of such adjustments, if any, as might have been determined to be necessary had the Foundation's financial statements been audited, the financial statements present fairly, in all material respects, the financial position of the Hospital as of September 30, 2009, and the changes in its financial position and cash flows for the year then ended. As described in Note 2, the Foundation has since received an audit in conformity with auditing standards generally accepted in the United States of America, and the Hospital has restated its 2009 financial statements to report the audited balance sheets and statements of revenues, expenses, and changes in net assets for the year ended September 30, 2009. Accordingly, our present opinion on the 2009 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Hospital as of September 30, 2009 and 2008, and the respective changes in financial position and, where applicable, cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2010, 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 audits.

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

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
April 28, 2010

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Balance Sheets**  
**September 30, 2009 and 2008**

<b>ASSETS</b>	<b>2009</b>	<b>2008</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 234,813	\$ 53,058
Receivables:		
Patient accounts, net of estimated uncollectibles of \$1,329,052 and \$1,026,558, respectively	2,368,564	2,760,131
Estimated third-party payor settlements	502,000	707,297
Taxes	185,336	-
Capital grants	-	168,415
Other	8,753	-
Inventories	476,294	476,359
Prepaid expenses	37,691	19,324
Total current assets	3,813,451	4,184,584
<i>Noncurrent assets</i>		
Deferred financing costs	30,303	34,792
Capital assets, net	2,632,792	2,995,558
Total noncurrent assets	2,663,095	3,030,350
<b>Total assets</b>	<b>\$ 6,476,546</b>	<b>\$ 7,214,934</b>

*See accompanying notes to basic financial statements.*

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Balance Sheets (Continued)**  
**September 30, 2009 and 2008**

<b>LIABILITIES AND NET ASSETS</b>	<b>2009</b>	<b>2008</b>
<i>Current liabilities</i>		
Current maturities of long-term debt	\$ 128,717	\$ 121,753
Current maturities of capital lease obligations	22,860	154,222
Operating line of credit	-	821,075
Loan payable to Teton County	80,000	735,000
Accounts payable	634,675	769,251
Accrued payroll and related liabilities	1,132,660	1,460,394
Accrued interest payable	15,703	13,006
Total current liabilities	<b>2,014,615</b>	4,074,701
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	891,921	1,012,389
Capital lease obligations, less current maturities	88,618	112,154
Net pension obligation	72,999	117,378
Total noncurrent liabilities	<b>1,053,538</b>	1,241,921
Total liabilities	<b>3,068,153</b>	5,316,622
<i>Net assets</i>		
Invested in capital assets, net of related debt	1,435,276	1,481,826
Unrestricted	1,973,117	416,486
Total net assets	<b>3,408,393</b>	1,898,312
<b>Total liabilities and net assets</b>	<b>\$ 6,476,546</b>	<b>\$ 7,214,934</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, 2009 and 2008**

	2009	2008
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$1,576,893 and \$2,245,262, respectively	\$ 10,561,381	\$ 11,208,871
Other	135,193	200,398
Daycare	74,767	89,655
Teton County Ambulance District contract	363,204	283,836
<b>Total operating revenues</b>	<b>11,134,545</b>	<b>11,782,760</b>
<i>Operating expenses</i>		
Salaries and wages	6,249,858	7,721,544
Employee benefits	858,925	1,223,282
Purchased services	1,450,362	1,827,774
Supplies	1,067,956	1,261,180
Leases and rent	91,127	120,959
Repairs and maintenance	143,967	186,118
Utilities	161,125	202,954
Insurance	156,084	156,957
Depreciation and amortization	481,776	590,734
Other expenses	346,258	430,164
<b>Total operating expenses</b>	<b>11,007,438</b>	<b>13,721,666</b>
<i>Operating income (loss)</i>	<b>127,107</b>	<b>(1,938,906)</b>
<i>Nonoperating revenue (expense)</i>		
Interest income	599	825
Grants	22,452	28,545
Contributions	125,163	119,839
Taxation for operations	1,326,208	32,784
Gain (loss) on disposal of capital assets	(42,601)	10,108
Interest expense	(132,799)	(134,994)
<b>Total nonoperating revenue (expense), net</b>	<b>1,299,022</b>	<b>57,107</b>
Excess of revenues over (under) expenses before capital grants and capital contributions from Foundation	<b>1,426,129</b>	<b>(1,881,799)</b>
<i>Capital grants</i>	<b>83,952</b>	<b>168,415</b>
<i>Capital contributions from Foundation</i>	<b>-</b>	<b>187,604</b>
Change in net assets	<b>1,510,081</b>	<b>(1,525,780)</b>
Net assets, beginning of year	<b>1,898,312</b>	<b>3,424,092</b>
<b>Net assets, end of year</b>	<b>\$ 3,408,393</b>	<b>\$ 1,898,312</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, 2009 and 2008**

	2009	2008
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 11,158,245	\$ 10,775,564
Payments to employees	(7,480,896)	(7,909,530)
Payments to suppliers and contractors	(3,578,510)	(4,232,354)
Other receipts	573,164	573,889
Net cash provided by (used in) operating activities	672,003	(792,431)
<i>Cash flows from noncapital financing activities</i>		
Proceeds from issuance of note payable to Teton County	-	600,000
Proceeds from issuance on line of credit	3,443,079	4,487,589
Payments on line of credit	(4,264,154)	(3,666,514)
Interest paid	(52,222)	(38,385)
Taxation for operations	485,872	32,784
Receipts of grants and contributions	147,615	148,384
Net cash (used in) provided by noncapital financing activities	(239,810)	1,563,858
<i>Cash flows from capital and related financing activities</i>		
Principal paid on long-term debt	(121,753)	(168,960)
Principal paid on capital lease obligations	(154,898)	(256,250)
Interest on long-term debt	(65,142)	(85,078)
Sale of capital assets	709	19,102
Capital grants received	252,367	-
Purchase of property and equipment	(162,320)	(228,008)
Net cash used in capital and related financing activities	(251,037)	(719,194)
<i>Cash flow from investing activities</i>		
Interest received	599	825
Net increase in cash and cash equivalents	181,755	53,058
Cash and cash equivalents, beginning of year	53,058	-
<b>Cash and cash equivalents, end of year</b>	<b>\$ 234,813</b>	<b>\$ 53,058</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, 2009 and 2008**

	2009	2008
<b><i>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities</i></b>		
Operating income (loss)	\$ 127,107	\$ (1,938,906)
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>		
Depreciation and amortization	481,776	590,734
Provision for bad debts	(1,576,893)	2,245,262
Decrease (increase) in assets:		
Patient accounts receivable	1,968,460	(1,854,681)
Estimated third-party payor settlements	205,297	(707,297)
Other receivables	(8,753)	-
Inventories	65	39,461
Prepaid expenses	(18,367)	44,604
Goodwill	-	58,293
Net pension benefit	-	104,815
Increase (decrease) in liabilities:		
Accounts payable	(134,576)	(131,856)
Estimated third-party payor settlements	-	(116,591)
Accrued payroll and related liabilities	(327,734)	756,353
Net pension obligation	(44,379)	117,378
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 672,003</b>	<b>\$ (792,431)</b>

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

In the year ended September 30, 2009, \$655,000 of the Hospital's note payable to Teton County was repaid through the reduction of tax funds received from Teton County.

The Hospital received donated equipment in the amount of \$187,604 during the year ended September 30, 2008.

*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, 2009 and 2008**

**1. Description of 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, and a rural health clinic in Victor, Idaho. The County Commissioners of Teton County, Idaho (the County) appoint the 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 seven 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 and 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 to support the Hospital. The Foundation provided contributions to the Hospital during 2009 and 2008 in the amounts of approximately \$125,000 and \$312,000 for various operational and capital support.

The Foundation has a note payable to Wells Fargo Bank N.A. to finance the See N' Save 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.

The separate financial statements of the Foundation may be obtained by contacting the Foundation at 120 East Howard Avenue in Driggs, Idaho 83422.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2009 and 2008**

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

**a. Reporting Entity (continued)**

The Foundation's condensed balance sheets at September 30, 2009 and 2008, are summarized as follows:

	<b>2009</b>	<b>2008</b>
<i>Assets</i>		
Cash and investments	\$ 162,026	\$ 154,605
Accounts receivable	336	20,336
Inventories	70,000	90,000
Property and equipment, net	112,693	120,783
<b>Total assets</b>	<b>\$ 345,055</b>	<b>\$ 385,724</b>
<i>Liabilities</i>		
Accrued expenses and other current liabilities	\$ 21,931	\$ 27,073
Long-term debt	117,685	129,408
<b>Total liabilities</b>	<b>139,616</b>	<b>156,481</b>
<i>Net assets</i>		
Temporarily restricted	81,261	21,607
Unrestricted	124,178	207,636
<b>Total net assets</b>	<b>205,439</b>	<b>229,243</b>
<b>Total liabilities and net assets</b>	<b>\$ 345,055</b>	<b>\$ 385,724</b>

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2009 and 2008**

**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, 2009 and 2008, are summarized as follows:

	<b>2009</b>	<b>2008</b>
<i>Revenues</i>		
Thrift Store revenue	\$ 201,923	\$ 192,051
Special event revenue, net of expenses of \$12,687 and \$20,198, respectively	15,307	41,212
In-kind donations from Teton Valley Hospital	26,368	38,248
Donations and grants	49,945	157,375
Other revenue	1,024	4,403
<b>Total revenues</b>	<b>294,567</b>	<b>433,289</b>
<i>Expenses</i>		
Contributions to Hospital	99,491	312,498
Other expense	218,880	230,611
<b>Total expenses</b>	<b>318,371</b>	<b>543,109</b>
Change in net assets	(23,804)	(109,820)
Net assets, beginning of year	229,243	339,063
<b>Net assets, end of year</b>	<b>\$ 205,439</b>	<b>\$ 229,243</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, 2009 and 2008**

**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.

*Capital assets* – The Hospital 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

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net assets, and are excluded from expenses in excess of revenues, 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 net assets.

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.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2009 and 2008**

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

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

*Compensated absences* – The Hospital’s employees earn paid time off at varying rates depending on years of service. Employees 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.

*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, 2009 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.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2009 and 2008**

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

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

*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 \$0 and \$10,964 were provided for the years ended September 30, 2009 and 2008, 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.

*Subsequent events* – The Hospital has evaluated subsequent events through April 28, 2010, the date on which the financial statements were available to be issued.

**2. Restatement:**

A qualified opinion was issued in the original independent auditors' report dated February 19, 2010, because the Teton Valley Hospital Foundation, a component unit of the Hospital, had not been audited for the year ended September 30, 2009. The Foundation has since received an audit in conformity with auditing standards generally accepted in the United States of America. The Foundation's balance sheets and statements of revenues, expenses, and changes in net assets have been updated in Note 1 to include audited figures. There was no financial impact on the Hospital's balance sheets or statements of revenues, expenses, and changes in net assets for the year ended September 30, 2009. The original independent auditors' report dated February 19, 2010 has been restated accordingly.

**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.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2009 and 2008**

**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 clinics. 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 for nonfee schedule services.
- *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 30% and 7%, respectively, of the Hospital's net patient revenue for the year ended September 30, 2009, and 25% and 8% 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 decreased by approximately \$4,000 in 2009 and 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, 2009 and 2008**

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

A summary of the Hospital's net patient service revenue is as follows:

	<b>Years Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<i>Gross patient service revenue</i>	\$ 13,482,873	\$ 15,176,411
Less charity care	-	10,964
	<b>13,482,873</b>	<b>15,187,375</b>
<i>Contractual adjustments</i>		
Medicare	(130,442)	127,242
Medicaid	510,713	366,631
Other	964,328	1,239,369
<i>Provision for bad debts</i>	<b>1,576,893</b>	<b>2,245,262</b>
	<b>2,921,492</b>	<b>3,978,504</b>
<b>Net patient service revenue</b>	<b>\$ 10,561,381</b>	<b>\$ 11,208,871</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, 2009 and 2008, 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, 2009 and 2008**

**6. Patient Accounts Receivable:**

Patient accounts receivable at September 30, 2009 and 2008, consisted of these amounts:

	<b>2009</b>	<b>2008</b>
Receivables from patients and their insurance carriers	\$ 3,220,461	\$ 3,073,201
Receivables from Medicare	330,687	462,847
Receivables from Medicaid	146,468	250,641
Total patient accounts receivable	<b>3,697,616</b>	3,786,689
Less allowance for uncollectible amounts	<b>1,329,052</b>	1,026,558
<b>Patient accounts receivable, net</b>	<b>\$ 2,368,564</b>	<b>\$ 2,760,131</b>

**7. Property Taxes:**

The Hospital received funds from property taxes obtained through a special property tax levy to support operations. The special levy began in the year ended September 30, 2009 and ends in the year ending September 30, 2010. The 2009 and 2010 special tax levy is .06% of the assessed property valuations in Teton County.

The special levy for the year ending September 30, 2010 is assessed at \$1,300,560.

Teton County acts as an agent to collect property taxes levied in the County for all taxing authorities. Under Idaho law, all property taxes become due and payable in the year following that in which they are levied. Property taxes are levied as of May 1 on property values assessed on the same date. Tax levy notices are issued in November and payments are due on December 20 and June 20. The billings are considered past due one day after the respective payment dates, at which time penalties and interest are assessed. If the payments are three years overdue, a tax deed is issued in January. Tax deed hearings are held and, if the owner does not redeem the property, the County takes possession.

Property taxes are recorded as receivables when levied. Since state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2009 and 2008**

**8. Capital Assets:**

Capital asset additions, retirements, and balances at September 30, 2009, were as follows:

	Balance September 30, 2008	Additions	Retirements	Balance September 30, 2009
<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	298,606	-	(21,495)	277,111
Major movable equipment	3,727,820	162,320	(53,097)	3,837,043
Total capital assets being depreciated	8,226,869	162,320	(74,592)	8,314,597
<i>Less accumulated depreciation for</i>				
Buildings and improvements	(2,735,566)	(136,269)	-	(2,871,835)
Land improvements	(1,989)	(220)	-	(2,209)
Fixed equipment	(190,534)	(14,138)	17,912	(186,760)
Major movable equipment	(2,395,893)	(331,149)	13,370	(2,713,672)
Total accumulated depreciation	(5,323,982)	(481,776)	31,282	(5,774,476)
<i>Total capital assets being depreciated, net</i>	2,902,887	(319,456)	(43,310)	2,540,121
<b>Capital assets, net</b>	<b>\$ 2,995,558</b>	<b>\$ (319,456)</b>	<b>\$ (43,310)</b>	<b>\$ 2,632,792</b>

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2009 and 2008**

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

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, 2009 and 2008**

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

A schedule of changes in the Hospital's noncurrent liabilities for the years ended September 30, 2009 and 2008, follows:

	Balance September 30, 2008	Additions	Reductions	Balance September 30, 2009	Amounts Due Within One Year
<i>Long-term debt</i>					
Revenue bonds					
2002 revenue bonds	\$ 1,192,999	\$ -	\$ (121,753)	\$ 1,071,246	\$ 128,717
1996 bond defeasance interest	(82,457)	-	10,756	(71,701)	-
2002 bond premium	23,600	-	(2,507)	21,093	-
Total long-term debt	1,134,142	-	(113,504)	1,020,638	128,717
Capital lease obligations	266,376	-	(154,898)	111,478	22,860
Net pension obligation	117,378	-	(44,379)	72,999	-
<b>Total noncurrent liabilities</b>	<b>\$ 1,517,896</b>	<b>\$ -</b>	<b>\$ (312,781)</b>	<b>\$ 1,205,115</b>	<b>\$ 151,577</b>

	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>

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2009 and 2008**

**9. 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.

*Capital leases payable:*

Capital lease obligations, with imputed interest from 3.9% to 4.9%, with monthly payments from \$501 to \$13,967, collateralized by leased equipment, due 2010 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 \$160,991 in 2009 and \$912,152 in 2008, and accumulated amortization of \$49,680 and \$776,104 as of September 30, 2009 and 2008, 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>Long-Term Debt</b>	
	<b>Principal</b>	<b>Interest</b>
2010	\$ 128,717	\$ 61,275
2011	136,080	53,913
2012	143,863	46,129
2013	152,092	37,900
2014	160,792	29,200
2015-2016	349,702	30,283
	<b>\$ 1,071,246</b>	<b>\$ 258,700</b>

<b>Years Ending September 30,</b>	<b>Capital Lease Obligations</b>	
	<b>Principal</b>	<b>Interest</b>
2010	\$ 22,860	\$ 4,758
2011	16,145	3,837
2012	10,725	3,242
2013	11,208	2,759
2014	11,712	2,255
2015-2017	38,828	3,506
	<b>\$ 111,478</b>	<b>\$ 20,357</b>

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2009 and 2008**

**10. Short-term Debt:**

A schedule of changes in the Hospital's short-term debt for the years ended September 30, 2009 and 2008, follows:

	Balance September 30, 2008	Additions	Reductions	Balance September 30, 2009
Operational line of credit	\$ 821,075	\$ 3,443,079	\$ (4,264,154)	\$ -
Note payable to Teton County	735,000	-	(655,000)	80,000
<b>Total short-term notes payable</b>	<b>\$ 1,556,075</b>	<b>\$ 3,443,079</b>	<b>\$ (4,919,154)</b>	<b>\$ 80,000</b>

	Balance September 30, 2007	Additions	Reductions	Balance September 30, 2008
Operational line of credit	\$ -	\$ 1,306,075	\$ (485,000)	\$ 821,075
Note payable to Teton County	135,000	600,000	-	735,000
<b>Total short-term notes payable</b>	<b>\$ 135,000</b>	<b>\$ 1,906,075</b>	<b>\$ (485,000)</b>	<b>\$ 1,556,075</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. In 2009, \$55,000 was paid on the property note payable. The \$600,000 of tax anticipation funds were repaid during 2009.

The Hospital has an operating line of credit for \$400,000, which bears interest at 4%. There were no draws outstanding on September 30, 2009. The line of credit matured on October 10, 2009, and was not renewed.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2009 and 2008**

**11. 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 and consisted of cash payments with a maximum possible benefit of \$15,000 per month. 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 and eliminates accrual of additional benefits subsequent to the effective date. The Plan has not been terminated or settled because the Plan participants have received neither lump-sum nor annuity contracts in exchange for their rights to receive pension benefits. There is no effect of projected future compensation levels to report as of December 31, 2009, 2008, or 2007.

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, 2009.

	<b>December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<i>Actuarial present value of benefit obligations</i>			
Vested benefit obligation	\$ 295,109	\$ 300,924	\$ 394,147
Nonvested benefit obligation	1,097	603	1,988
Accumulated benefit obligation	<b>296,206</b>	301,527	396,135
Projected benefit obligation	<b>285,621</b>	301,510	396,121
Estimated market value of plan assets	<b>212,622</b>	184,132	500,936
Projected plan assets less than benefit obligation	<b>(72,999)</b>	(117,378)	104,815
Unrecognized net gain and prior service costs	-	-	-
<b>Net pension (obligation) benefit</b>	<b>\$ (72,999)</b>	<b>\$ (117,378)</b>	<b>\$ 104,815</b>
Estimated market value of Plan assets as a percentage of projected benefit obligation	-74.4%	-61.1%	-126.5%

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2009 and 2008**

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

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

	<b>December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Interest cost on projected benefit obligation	\$ (21,106)	\$ (27,729)	\$ (11,362)
Actual return on plan assets	30,095	(126,672)	47,128
<b>Net periodic pension cost</b>	<b>\$ 8,989</b>	<b>\$ (154,401)</b>	<b>\$ 35,766</b>
Percentage of net periodic pension cost contributed	0%	0%	0%

The annual required contribution for the current year was determined as part of the December 31, 2009, 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 6.4%.

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 as of December 31, 2009, 2008, and 2007, are summarized as follows:

<b>ASSETS</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Cash	\$ 522	\$ 517	\$ 17,075
Contribution receivable	37,630	8,943	3,500
Investments	174,470	174,672	480,361
<b>Total assets</b>	<b>212,622</b>	<b>184,132</b>	<b>500,936</b>
<b>LIABILITIES AND NET ASSETS</b>			
Net assets held in trust for pension benefits	212,622	184,132	500,936
<b>Total liabilities and net assets</b>	<b>\$ 212,622</b>	<b>\$ 184,132</b>	<b>\$ 500,936</b>

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2009 and 2008**

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

The Plan's condensed statements of revenues, expenses and changes in net assets for the years ended December 31, 2009, 2008, and 2007, are summarized as follows:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Investment (loss) income	\$ 29,149	\$ (109,649)	\$ 55,733
Employer contributions	<b>37,630</b>	8,943	31,814
Total (loss) income	<b>66,779</b>	(100,706)	87,547
Pension distributions	<b>38,289</b>	216,098	247,766
Change in trust assets	<b>28,490</b>	(316,804)	(160,219)
Net assets, beginning of year	<b>184,132</b>	500,936	661,155
<b>Net assets, end of year</b>	<b>\$ 212,622</b>	\$ 184,132	\$ 500,936

The mix of Plan assets at December 31, 2009, 2008, and 2007, was as follows:

	<b>December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Cash	<b>0 %</b>	0 %	3 %
Contribution receivable	<b>18</b>	4	1
Equity securities	<b>82</b>	96	96
<b>Total plan assets</b>	<b>100 %</b>	100 %	100 %

The Hospital contributed \$37,630 and \$3,500 for the plan years ended December 31, 2009 and 2008, respectively. Based on actuarial assumptions, the minimum contribution required in 2009 was \$33,086.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2009 and 2008**

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

The estimated benefits expected to be paid by the Plan are as follows:

<b>Years Ending September 30,</b>	<b>Amount</b>
2010	\$ 7,995
2011	10,587
2012	12,745
2013	12,473
2014	13,310
2015-2019	94,358
<b>Total expected benefit payments</b>	<b>\$ 151,468</b>

In addition to the defined benefit pension plan, the Hospital sponsors a 401(a) defined contribution pension plan and a 457(b) defined contribution pension plan. The retirement plans are administered by Pensions Plus, Inc.

**401(a) plan** – The 401(a) defined contribution pension plan is an employer sponsored plan. Employees become eligible participants upon reaching age 21, and upon completion of six months of service. In addition, employees must work at least 1,000 hours per year, and contribute a minimum of 3% of their annual compensation to the 457(b) plan. The Hospital makes discretionary profit-sharing contributions to the 401(a) plan. Hospital contributions to this plan were \$65,696 and \$93,754 for the years ended September 30, 2009 and 2008.

**457(b) plan** – The 457(b) deferred compensation pension plan is offered to any Hospital employees who are age 21. The employee contributions to the 457(b) plan were \$133,471 and \$154,769 for the years ended September 30, 2009 and 2008. The Hospital did not contribute to this plan.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended September 30, 2009 and 2008**

**12. Risk Management and Contingencies:**

**Risk management** – The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, accident, and unemployment benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**Medical malpractice claims** – The Hospital has professional liability insurance with Steadfast Insurance Company (Steadfast). The Steadfast policy provides protection on a “claims-made” basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the current policies. If there are unreported incidents which result in a malpractice claim in the current year, such claims would be covered in the year the claim was reported to the insurance carrier only if the Hospital purchased claims-made insurance in that year or the Hospital purchased “tail” insurance to cover claims incurred before but reported to the insurance carrier after cancellation or expiration of a claims-made policy. The malpractice insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$3,000,000. The policy has a \$10,000 deductible.

The Hospital also has excess professional liability insurance with Steadfast on a “claims-made” basis. The excess malpractice insurance provides \$2,000,000 per claim of primary coverage with an annual aggregate limit of \$2,000,000. The policy has a \$10,000 deductible.

**13. Credit Risk:**

**Patient accounts receivable** – The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients at September 30, 2009 and 2008, were as follows:

	<b>2009</b>	<b>2008</b>
Medicare	<b>14 %</b>	17 %
Medicaid	<b>6</b>	9
Blue Cross	<b>9</b>	7
Other commercial insurances	<b>24</b>	26
Self-pay	<b>47</b>	41
	<b>100 %</b>	100 %

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

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 accompanying financial statements of the business-type activities and discretely presented component unit of Teton Valley Hospital, a component unit of Teton County, Idaho (the Hospital) as of and for the year ended September 30, 2009, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated April 28, 2010. 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 generally accepted accounting principles 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 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 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 following items to be material weaknesses: 09-01, 09-02, 09-03, 09-04, and 09-05.

### **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 February 19, 2010.

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, County Commissioners, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
April 28, 2010

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Schedule of Findings and Responses**  
**Year Ended September 30, 2009**

**Teton Valley Hospital**

**09-01 Auditor Preparation of the Hospital's Financial Statements**

<i>Criteria</i>	Internal control procedures over financial reporting include the ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Financial statements prepared in accordance with GAAP include a statement of cash flows and notes.  [ ] Compliance Finding    [X] Significant Deficiency    [X] Material Weakness
<i>Condition</i>	The Hospital relies upon their independent auditor to prepare external financial statements in accordance with GAAP, as well as the knowledge to detect accuracy and completeness of all required footnotes.
<i>Context</i>	This finding appears to be a systemic problem.
<i>Cause</i>	The Hospital has not demonstrated the capability to prepare GAAP financial statements.
<i>Effect</i>	Internal controls over financial reporting are not sufficient to detect any potential misstatements in the financial statements or the related notes.
<i>Recommendation</i>	The Hospital should consider the following recommendations: <ul style="list-style-type: none"> <li>▪ Further training of financial staff in respect to preparing financial statements in accordance with GAAP.</li> <li>▪ Contract with a separate accounting firm with the experience and training necessary to prepare such statements to review the financial statements.</li> <li>▪ The Hospital could accept this finding on an annual basis because it is not a cost-effective use of resources.</li> </ul>
<i>Management's Response</i>	The chief financial officer (CFO) continues to receive training from Bingham Memorial Hospital's (BMH) CFO and will also attend a training conference in fall 2010. The Hospital will accept the auditors' findings regarding the inability to prepare GAAP financial statements because developing this capability is cost prohibitive.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Schedule of Findings and Responses (Continued)**  
**Year Ended September 30, 2009**

**Teton Valley Hospital**

**09-02 Revenue Cycle – Difficulties in Billing and Collecting Patient Accounts Receivable**

<i>Criteria</i>	<p>Good business practices and successful internal control procedures require patient billing and collecting to be timely. Also, the public expects county-owned hospitals to collect amounts due to them by patients and third-party payors.</p> <p>[ ] Compliance Finding    [X] Significant Deficiency    [X] Material Weakness</p>
<i>Condition</i>	<p>The Hospital is experiencing significant difficulties in billing and collecting patient accounts receivable in a timely manner. An inefficient collection process creates cash flow problems for the Hospital and increases the likelihood that cash that could be collected by the Hospital will not be collected.</p>
<i>Context</i>	<p>This finding appears to be a systemic problem.</p>
<i>Cause</i>	<p>The Hospital, like many rural hospitals, has had difficulty recruiting and retaining employees to work in the business office with the necessary skill sets. The Hospital's financial condition has also made it difficult to commit additional financial resources to the business office. Issues with the integration between the Hospital's billing software and the Driggs Clinic billing software also hindered the billing and collection process.</p>
<i>Effect</i>	<p>There is an increased risk that amounts due to the Hospital will not be collected.</p>
<i>Recommendation</i>	<p>The Hospital should consider a combination of the following recommendations:</p> <ul style="list-style-type: none"> <li>▪ Continue to receive additional training and support from their software vendors.</li> <li>▪ Continue to provide external education opportunities to the business office employees.</li> </ul>
<i>Management's Response</i>	<p>The Hospital hired replacement director, Glenn Giles for the business office and has received continued assistance from BMH's business office manager. Further, the Hospital will retain Mitch Felchle, former interim chief executive officer (CEO), to prepare a detailed analysis of revenue cycle and implement improvements in billing and collection. In addition, staff training is being provided, both internally and through external programs.</p>

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Schedule of Findings and Responses (Continued)**  
**Year Ended September 30, 2009**

**Teton Valley Hospital and Teton Valley Hospital Foundation**

**09-03 Auditor-Detected Adjusting Journal Entries**

<i>Criteria</i>	There should be no significant or material adjusting journal entries made during the audit process.  [ ] Compliance Finding [X] Significant Deficiency [X] Material Weakness
<i>Condition</i>	During the audit process, numerous adjusting journal entries were proposed by the audit team to achieve accurate account balances. Significant adjustments were made to Hospital account balances related to inventory, accrued payroll, accounts payable, taxes receivable, and accounts receivable. Significant adjustments were made to Foundation account balances related to recognition of in-kind contributions, accounts payable accrual, and recognition of program expenses.
<i>Context</i>	This finding appears to be a systemic problem.
<i>Cause</i>	Account reconciliations and review not being prepared by management.
<i>Effect</i>	Financial reports depended on by management, the Hospital Board of Trustees, the Foundation Board of Directors, and external financial statement users may not present an accurate image of the Hospital and Foundation's financial position.
<i>Recommendation</i>	All balance-sheet accounts of the Hospital and Foundation should be reconciled and adjusted as necessary each month. Foundation in-kind contributions should be identified and recognized on a monthly basis, and separate accounts should be used to track Foundation program revenues and expenses.
<i>Management's Response</i>	The Hospital and Foundation will reconcile balance sheet accounts on a monthly basis. Adjustments will be made to accounts requiring year-end reconciliation. The accounts receivable payment posting staff will receive further training and the business office director will also conduct an internal audit of their work.

**Teton Valley Hospital**  
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**Schedule of Findings and Responses (Continued)**  
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**09-04 No Written Financial Reporting Policies and Procedures**

<i>Criteria</i>	Written policies and procedures should be maintained for all major, critical transaction cycles. These policies and procedures should be monitored and reviewed to ensure that they are operating effectively.  [ ] Compliance Finding [X] Significant Deficiency [X] Material Weakness
<i>Condition</i>	There are no written policies and procedures over financial reporting processes. Policies and procedures in place are not operating effectively.
<i>Context</i>	This finding appears to be a systemic problem.
<i>Cause</i>	Management has a limited number of formally documented policies, and the implementation of financial reporting policies and procedures is not being monitored.
<i>Effect</i>	There is a risk that transactions will not be accurately recorded or reviewed. This increases the difficulty of creating accurate and timely financial statements.
<i>Recommendation</i>	We recommend policies be created and formally documented for all major transaction cycles. These formal documents should be distributed to respective managers, and monitored for ongoing compliance.
<i>Management's Response</i>	The Hospital will create written policies and procedures for financial reporting by utilizing models from the Idaho Hospital Association. In conjunction with this process, Foundation policies and procedures will also be developed.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Schedule of Findings and Responses (Continued)**  
**Year Ended September 30, 2009**

**Teton Valley Hospital**

**09-05 No Review or Approval of Manual Journal Entries**

<i>Criteria</i>	To help minimize the risk of fraud to the Hospital, only one individual should have general ledger access to post adjustments. All journal entries should be reviewed and approved.
	[ ] Compliance Finding    [X] Significant Deficiency    [X] Material Weakness
<i>Condition</i>	While conducting our audit procedures and during review of manual journal entries, we noted that the CFO and billers have the capability to post journal entries. We also noted that not all of the manual journal entries are reviewed and approved.
<i>Context</i>	This finding appears to be a systemic problem.
<i>Cause</i>	Management, the accountant, and billers have unrestricted system access to post journal entries to the general ledger.
<i>Effect</i>	There is an increased risk of fraud or error in the financial reporting process to the Hospital.
<i>Recommendation</i>	Policies and procedures should be created defining personnel responsible for generating, posting, approving, and reviewing journal entries in the Hospital's general ledger.
<i>Management's Response</i>	The business office director will review the business office staff's manual journal entries and the CFO will review the business office director's manual journal entries. The CEO will review entries by the CFO and retain approval reports.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Schedule of Findings and Responses (Continued)**  
**Year Ended September 30, 2009**

**Teton Valley Hospital**

**09-06 Payroll Processing – Incompatible Duties**

<i>Criteria</i>	Local governmental bodies are required to maintain internal controls over financial accounting and reporting systems to help ensure public funds are properly safeguarded. Segregation of duties in the payroll process reduces the risk that a single employee could conduct inappropriate or illegal activities, conceal such activities, and not be discovered.
	[ ] Compliance Finding    [X] Significant Deficiency    [ ] Material Weakness
<i>Condition</i>	The employee responsible for generating payroll checks also has system access to set and change pay rates and access to employee master files. In addition, payroll checks are not reviewed after being printed by this employee.
<i>Context</i>	This finding appears to be a systemic problem.
<i>Cause</i>	One employee is assigned incompatible duties and responsibilities.
<i>Effect</i>	There is an increased risk that the employee with incompatible duties could through error or fraud misappropriate cash from the Hospital.
<i>Recommendation</i>	An employee with the ability to post transactions to the payroll system should not have the ability to perform check runs or access employee master files. Payroll checks should be reviewed by an employee independent of the payroll function. The reviewer should review a check log and verify the numerical sequence of the checks. Once payroll checks are reviewed, the checks should not be returned to the employee who generated them. Instead, the checks should immediately be given to someone independent of the payroll process.
<i>Management's Response</i>	The CFO approves the payroll check register and reconciles to bank statement. The CEO will also review and approve the payroll check register. The Hospital will create written policies and procedures for payroll processing.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Schedule of Findings and Responses (Continued)**  
**Year Ended September 30, 2009**

**Teton Valley Hospital**

**09-07 Incompatible Duties of Accounting Personnel**

<i>Criteria</i>	Local governmental bodies are required to maintain internal controls over financial accounting and reporting systems to help ensure public funds are properly safe-guarded. Segregation of duties in accounting processes reduces the risk that a single employee could conduct inappropriate or illegal activities, conceal such activities, and not be discovered.
	[ ] Compliance Finding [X] Significant Deficiency [ ] Material Weakness
<i>Condition</i>	The chief financial officer (CFO) has the responsibility for approving cash disbursements and various other transactions and has the ability to enter transactions in the system.
<i>Context</i>	This finding appears to be a systemic problem.
<i>Cause</i>	The CFO has been assigned incompatible duties and responsibilities.
<i>Effect</i>	There is an increased risk that the employee with incompatible duties could create and approve fictitious and/or unauthorized transactions and could enter them in the system without anyone having any knowledge of these transactions.
<i>Recommendation</i>	No one employee should be able to have transaction approval duties, custody of asset duties, and bookkeeping duties. If the CFO is to continue approving transactions, the CFO should not have bookkeeping capability.
<i>Management's Response</i>	The Hospital has implemented a written purchasing policy. Due to the Hospital's limited finance department staffing, the CEO will provide oversight to the CFO's accounting authority.

**Teton Valley Hospital**  
**A Component Unit of Teton County, Idaho**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended September 30, 2009**

- 08-01 Auditor preparation of the Hospital's audited financial statements** – repeated, see finding 09-01
- 08-02 Difficulties in billing and collecting patient accounts receivable** – repeated, see finding 09-02
- 08-03 Auditor detected adjusting journal entries** – repeated, see finding 09-03
- 08-04 No written financial policies or procedures** – repeated, see finding 09-04
- 08-05 No review or approval of manual journal entries** – repeated, see finding 09-05
- 08-06 Payroll processing – incompatible duties** – repeated, see finding 09-06
- 08-07 Bank account reconciliations** – resolved
- 08-08 Discrepancies in system revenue report balances** – resolved
- 08-09 Allowance for uncollectible accounts** – resolved
- 08-10 Cash disbursements** – resolved
- 08-11 Capital assets** – resolved
- 08-12 Home health financial information** – resolved
- 08-13 Vendor access to Hospital's checking account** – resolved
- 08-14 Accrued physician vacation and productivity bonus compensation** – resolved
- 08-15 Accounts payable – improper accrual** – resolved
- 08-16 Recognition of noncash contributions from Teton Valley Hospital Foundation** – resolved