

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

Basic Financial Statements and
Independent Auditors' Reports

September 30, 2010 and 2009

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 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, 2010, and the business-type activities of Teton Valley Hospital as of and for the year ended September 30, 2009, 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 Health Care Foundation (the Foundation), which represents 5%, 6%, and 2%, respectively, of the assets, net assets, and revenues of the business-type activities as of and 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 opinion, based on our audits and the report of other auditors, the financial statements referred to previously 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, 2010 and 2009, 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 February 11, 2011, 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 should be considered in assessing the results of our audits.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
February 11, 2011

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Balance Sheets
September 30, 2010 and 2009

ASSETS	2010	2009
<i>Current assets</i>		
Cash and cash equivalents	\$ 717,881	\$ 234,813
Receivables:		
Patient accounts, net of estimated uncollectibles of \$1,670,026 and \$1,329,052, respectively	2,546,822	2,368,564
Estimated third-party payor settlements	483,000	502,000
Taxes	259,685	185,336
Other	13,049	8,753
Inventories	450,023	476,294
Prepaid expenses	18,492	37,691
Total current assets	4,488,952	3,813,451
<i>Noncurrent assets</i>		
Capital contributions	73,080	-
Deferred financing costs	25,813	30,303
Capital assets, net	2,390,617	2,632,792
Total noncurrent assets	2,489,510	2,663,095
Total assets	\$ 6,978,462	\$ 6,476,546

See accompanying notes to basic financial statements.

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Balance Sheets (Continued)
September 30, 2010 and 2009

LIABILITIES AND NET ASSETS	2010	2009
<i>Current liabilities</i>		
Current maturities of long-term debt	\$ 136,080	\$ 128,717
Current maturities of capital lease obligations	17,291	22,860
Loan payable to Teton County	-	80,000
Accounts payable	645,250	634,675
Accrued payroll and related liabilities	888,534	1,132,660
Accrued interest payable	13,822	15,703
Total current liabilities	1,700,977	2,014,615
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	763,946	891,921
Capital lease obligations, less current maturities	72,622	88,618
Net pension obligation	164,170	72,999
Total noncurrent liabilities	1,000,738	1,053,538
Total liabilities	2,701,715	3,068,153
<i>Net assets</i>		
Invested in capital assets, net of related debt	1,412,669	1,435,276
Restricted for capital acquisition	73,080	-
Unrestricted	2,790,998	1,973,117
Total net assets	4,276,747	3,408,393
Total liabilities and net assets	\$ 6,978,462	\$ 6,476,546

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, 2010 and 2009

	2010	2009
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$1,343,992 and \$1,576,893, respectively	\$ 11,093,109	\$ 10,561,381
Teton County Ambulance District contract	371,844	363,204
Daycare	40,168	74,767
Other	96,025	135,193
Total operating revenues	11,601,146	11,134,545
<i>Operating expenses</i>		
Salaries and wages	6,553,248	6,245,041
Employee benefits	1,256,653	861,396
Purchased services	1,715,379	1,452,708
Supplies	1,296,468	1,067,956
Leases and rent	105,814	91,127
Repairs and maintenance	211,273	143,967
Utilities	172,581	161,125
Insurance	128,673	156,084
Depreciation and amortization	475,390	481,776
Other expenses	309,855	346,258
Total operating expenses	12,225,334	11,007,438
<i>Operating income (loss)</i>	(624,188)	127,107
<i>Nonoperating revenue (expense)</i>		
Interest income	1,954	599
Grants	16,371	22,452
Contributions	110,687	125,163
Taxation for operations	1,369,349	1,326,208
Loss on disposal of capital assets	-	(42,601)
Interest expense	(78,899)	(132,799)
Total nonoperating revenue (expense), net	1,419,462	1,299,022
Excess of revenues over expenses before capital grants and capital contributions from Foundation	795,274	1,426,129
<i>Capital grants</i>	-	83,952
<i>Capital contributions from Foundation</i>	73,080	-
Change in net assets	868,354	1,510,081
Net assets, beginning of year	3,408,393	1,898,312
Net assets, end of year	\$ 4,276,747	\$ 3,408,393

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, 2010 and 2009

	2010	2009
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 10,933,851	\$ 11,158,245
Payments to and on behalf of employees	(7,962,856)	(7,480,896)
Payments to suppliers and contractors	(3,888,294)	(3,578,510)
Other receipts	508,037	573,164
Net cash provided by (used in) operating activities	(409,262)	672,003
<i>Cash flows from noncapital financing activities</i>		
Proceeds from issuance on line of credit	-	3,443,079
Payments on line of credit	-	(4,264,154)
Interest paid	(10,027)	(52,222)
Taxation for operations	1,215,000	485,872
Receipts of grants and contributions	127,058	147,615
Net cash provided by (used in) noncapital financing activities	1,332,031	(239,810)
<i>Cash flows from capital and related financing activities</i>		
Principal paid on long-term debt	(128,717)	(121,753)
Principal paid on capital lease obligations	(21,565)	(154,898)
Interest on long-term debt	(58,158)	(65,142)
Sale of capital assets	-	709
Capital grants received	-	252,367
Purchase of property and equipment	(233,215)	(162,320)
Net cash used in capital and related financing activities	(441,655)	(251,037)
<i>Cash flow from investing activities</i>		
Interest received	1,954	599
Net increase in cash and cash equivalents	483,068	181,755
Cash and cash equivalents, beginning of year	234,813	53,058
Cash and cash equivalents, end of year	\$ 717,881	\$ 234,813

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, 2010 and 2009

	2010	2009
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities</i>		
Operating income (loss)	\$ (624,188)	\$ 127,107
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>		
Depreciation and amortization	475,390	481,776
Provision for bad debts	1,343,992	1,576,893
Decrease (increase) in assets:		
Patient accounts receivable	(1,522,250)	(1,185,326)
Estimated third-party payor settlements	19,000	205,297
Other receivables	(4,296)	(8,753)
Inventories	26,271	65
Prepaid expenses	19,199	(18,367)
Increase (decrease) in liabilities:		
Accounts payable	10,575	(134,576)
Accrued payroll and related liabilities	(244,126)	(327,734)
Net pension obligation	91,171	(44,379)
Net cash provided by (used in) operating activities	\$ (409,262)	\$ 672,003

Noncash Capital and Related Financing Activities

The Hospital's note payable to Teton County was repaid through the reduction of tax funds received from Teton County in the amount of \$80,000 and \$655,000 in the years ended September 30, 2010 and 2009, respectively.

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, 2010 and 2009

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 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 \$1,275, 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, 2010 and 2009

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

a. Reporting Entity (continued)

The Foundation's condensed balance sheets at September 30, 2010 and 2009, are summarized as follows:

	2010	2009
<i>Assets</i>		
Cash	\$ 228,389	\$ 162,026
Accounts receivable	-	336
Inventories	40,595	70,000
Property and equipment, net	104,603	112,693
Total assets	\$ 373,587	\$ 345,055
<i>Liabilities</i>		
Accrued expenses and other current liabilities	\$ 80,602	\$ 21,931
Long-term debt	110,431	117,685
Total liabilities	191,033	139,616
<i>Net assets</i>		
Temporarily restricted	136,489	81,261
Unrestricted	46,065	124,178
Total net assets	182,554	205,439
Total liabilities and net assets	\$ 373,587	\$ 345,055

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Notes to Basic Financial Statements (Continued)
Years Ended September 30, 2010 and 2009

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, 2010 and 2009, are summarized as follows:

	2010	2009
<i>Revenues</i>		
Thrift Store revenue	\$ 206,154	\$ 201,923
Special event revenue, net of expenses of \$12,132 and \$12,687, respectively	20,258	15,307
In-kind donations from Teton Valley Hospital	-	26,368
Donations and grants	137,069	49,945
Other revenue	725	1,024
Total revenues	364,206	294,567
<i>Expenses</i>		
Contributions to Hospital	181,132	99,491
Other expense	205,959	218,880
Total expenses	387,091	318,371
Change in net assets	(22,885)	(23,804)
Net assets, beginning of year	205,439	229,243
Net assets, end of year	\$ 182,554	\$ 205,439

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, 2010 and 2009

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 revenues in excess of expenses, 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, 2010 and 2009

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. There were no restricted assets as of September 30, 2009. *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, 2010 and 2009

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

b. Summary of Significant Accounting Policies (continued)

Charity care – The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined as charity care, they are not reported as revenue. The amount of charges forgone for services and supplies furnished under its charity care policy aggregated \$29,480 and \$-0-, for the years ended September 30, 2010 and 2009, 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.

Reclassifications – Certain items have been reclassified in the 2009 financial statements to conform to the 2010 presentation, with no effect on the change in net assets for the year ended September 30, 2009.

Subsequent events – The Hospital has evaluated subsequent events through February 11, 2011, the date on which the financial statements were available to be issued.

2. 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, 2010 and 2009

3. 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 8%, respectively, of the Hospital's net patient revenue for the year ended September 30, 2010, and 30% and 7% for the year ended September 30, 2009.

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 \$40,000 and \$4,000 in 2010 and 2009, respectively, 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, 2010 and 2009

3. Net Patient Service Revenue (continued):

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

	Years Ended September 30,	
	2010	2009
<i>Gross patient service revenue</i>	\$ 14,562,044	\$ 13,482,873
Less charity care	29,480	-
	14,532,564	13,482,873
<i>Contractual adjustments</i>		
Medicare	140,759	(130,442)
Medicaid	582,038	510,713
Other	1,372,666	964,328
<i>Provision for bad debts</i>	1,343,992	1,576,893
	3,439,455	2,921,492
Net patient service revenue	\$ 11,093,109	\$ 10,561,381

4. 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, 2010 and 2009, the Hospital did not have any uninsured or uncollateralized deposit balances.

5. Patient Accounts Receivable:

Patient accounts receivable consisted of these amounts:

	Years Ended September 30,	
	2010	2009
Patients and their insurance carriers	\$ 2,927,730	\$ 2,858,071
Blue Cross and Blue Shield	439,658	362,390
Medicare	575,746	330,687
Medicaid	273,714	146,468
Total patient accounts receivable	4,216,848	3,697,616
Less allowance for uncollectible amounts	1,670,026	1,329,052
Patient accounts receivable, net	\$ 2,546,822	\$ 2,368,564

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Notes to Basic Financial Statements (Continued)
Years Ended September 30, 2010 and 2009

6. 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 ended in the year ended September 30, 2010. The 2010 and 2009 special tax levy is 0.06% of the assessed property valuations of \$2,167,599,965 and \$2,210,346,666, respectively, in Teton County.

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, 2010 and 2009

7. Capital Assets:

Capital asset additions, retirements, and balances for the year ended September 30, 2010, were as follows:

	Balance September 30, 2009	Additions	Retirements	Balance September 30, 2010
<i>Capital assets not being depreciated</i>				
Land	\$ 92,671	\$ -	\$ -	\$ 92,671
Construction in progress	-	73,075	-	73,075
Total capital assets not being depreciated	92,671	73,075	-	165,746
<i>Capital assets being depreciated</i>				
Buildings and improvements	4,197,143	74,548	-	4,271,691
Land improvements	3,300	-	-	3,300
Fixed equipment	277,111	-	-	277,111
Major movable equipment	3,837,043	85,592	-	3,922,635
Total capital assets being depreciated	8,314,597	160,140	-	8,474,737
<i>Less accumulated depreciation for</i>				
Buildings and improvements	(2,871,835)	(137,415)	-	(3,009,250)
Land improvements	(2,209)	(220)	-	(2,429)
Fixed equipment	(186,760)	(14,138)	-	(200,898)
Major movable equipment	(2,713,672)	(323,617)	-	(3,037,289)
Total accumulated depreciation	(5,774,476)	(475,390)	-	(6,249,866)
<i>Total capital assets being depreciated, net</i>	2,540,121	(315,250)	-	2,224,871
Capital assets, net	\$ 2,632,792	\$ (242,175)	\$ -	\$ 2,390,617

Construction in progress at September 30, 2010, consisted of costs incurred in the purchase of a new blade server and related software. The software was put into service in November 2010, with a cost to complete of \$46,146.

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Notes to Basic Financial Statements (Continued)
Years Ended September 30, 2010 and 2009

7. Capital Assets (continued):

Capital asset additions, retirements, and balances for the year ended 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
Capital assets, net	\$ 2,995,558	\$ (319,456)	\$ (43,310)	\$ 2,632,792

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Notes to Basic Financial Statements (Continued)
Years Ended September 30, 2010 and 2009

8. Long-term Debt and Other Noncurrent Liabilities:

A schedule of changes in the Hospital's noncurrent liabilities for the years ended September 30, 2010 and 2009, follows:

	Balance September 30, 2009	Additions	Reductions	Balance September 30, 2010	Amounts Due Within One Year
<i>Long-term debt</i>					
Revenue bonds:					
2002 revenue bonds	\$ 1,071,246	\$ -	\$ (128,717)	\$ 942,529	\$ 136,080
1996 bond defeasance interest	(71,701)	-	10,755	(60,946)	-
2002 bond premium	21,093	-	(2,650)	18,443	-
Total long-term debt	1,020,638	-	(120,612)	900,026	136,080
<i>Capital lease obligations</i>	111,478	-	(21,565)	89,913	17,291
<i>Net pension obligation</i>	72,999	122,460	(31,289)	164,170	-
Total noncurrent liabilities	\$ 1,205,115	\$ 122,460	\$ (173,466)	\$ 1,154,109	\$ 153,371

	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
<i>Capital lease obligations</i>	266,376	-	(154,898)	111,478	22,860
<i>Net pension obligation</i>	117,378	-	(44,379)	72,999	-
Total noncurrent liabilities	\$ 1,517,896	\$ -	\$ (312,781)	\$ 1,205,115	\$ 151,577

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Notes to Basic Financial Statements (Continued)
Years Ended September 30, 2010 and 2009

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.

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 2011 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 2010 and 2009, and accumulated amortization of \$61,898 and \$49,680 as of September 30, 2010 and 2009, respectively.

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

Years Ending September 30,	Long-Term Debt	
	Principal	Interest
2011	\$ 136,080	\$ 53,913
2012	143,863	46,129
2013	152,092	37,900
2014	160,792	29,200
2015	169,989	20,003
2016-2017	179,713	10,280
	\$ 942,529	\$ 197,425

Years Ending September 30,	Capital Lease Obligations	
	Principal	Interest
2011	\$ 17,291	\$ 3,837
2012	10,725	3,242
2013	11,208	2,760
2014	11,712	2,255
2015	12,239	1,728
2016-2017	26,738	1,778
	\$ 89,913	\$ 15,600

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Notes to Basic Financial Statements (Continued)
Years Ended September 30, 2010 and 2009

9. Short-term Debt:

A schedule of changes in the Hospital's short-term debt for the years ended September 30, 2010 and 2009, follows:

	Balance September 30, 2009	Additions	Reductions	Balance September 30, 2010
Note payable to Teton County	\$ 80,000	\$ -	\$ (80,000)	\$ -
Total short-term notes payable	\$ 80,000	\$ -	\$ (80,000)	\$ -

	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
Total short-term notes payable	\$ 1,556,075	\$ 3,443,079	\$ (4,919,154)	\$ 80,000

A note payable with Teton County in the original 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 was fully paid off in 2010.

The Hospital had an operating line of credit for \$400,000, with 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, 2010 and 2009

10. Retirement Plans:

Actuarial and financial reporting under Governmental Accounting Standards Board (GASB) Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* was adopted in the current reporting year, and was effective as of January 1, 2009. Actuarial calculations have been prepared using valuation methods and assumptions in accordance with this standard.

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 Randall and Hurley, 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, 2010, 2009, or 2008.

The annual required contribution for the current year was determined as part of the December 31, 2010, actuarial valuation using the Entry Age Normal Cost Method. This method determines the current year's cost or "Normal Cost" as the total of each participant's annual amount necessary to fund the project benefit over a level percentage of compensation from the date of hire to the date of anticipated retirement. The entry age used in the actuarial method is established based on the date of initial plan participation. Also, under this method the initial liability and subsequent changes or actuarial gains and losses are amortized over a specified period. The actuarial assumptions included (a) long-term rate of return for assets of 5.75%, and (b) discount rate for benefit obligations of 5.75%. The actuarial value of assets was calculated to be equivalent to the market value of assets.

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Notes to Basic Financial Statements (Continued)
Years Ended September 30, 2010 and 2009

10. Retirement Plans (continued):

The following table sets forth the Plan's funded status. Unless otherwise indicated, information in this note is provided as of the latest actuarial valuation date of December 31, 2010.

	December 31,		
	2010	2009	2008
<i>Actuarial present value of benefit obligations</i>			
Projected benefit obligation	\$ (405,097)	\$ (286,567)	\$ (301,510)
Estimated market value of plan assets	240,927	213,568	184,132
Unfunded actuarial accrued liability	\$ (164,170)	\$ (72,999)	\$ (117,378)
Estimated market value of Plan assets as a percentage of projected benefit obligation			
	59.5%	74.5%	61.1%

The Hospital's annual pension cost and net pension obligation for the year ended December 31, 2010 are set forth in the following table. In accordance with GASB Statement No. 27, the 2010 calculation assumes a zero liability at the beginning of the calculation period.

	Amount
<i>Annual Pension Cost and Net Pension Obligation</i>	
Annual required contribution	\$ 20,966
Annual pension cost	20,966
Employer contributions	(31,289)
Decrease in net pension obligation	(10,323)
Net pension obligation, beginning of year	-
Net pension obligation, end of year	\$ (10,323)

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Notes to Basic Financial Statements (Continued)
Years Ended September 30, 2010 and 2009

10. Retirement Plans (continued):

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, 2010, 2009, and 2008, are summarized as follows:

ASSETS	2010	2009	2008
Cash	\$ 3,500	\$ 659	\$ 517
Contribution receivable	20,789	37,630	8,943
Investments	266,962	221,152	174,672
Total assets	\$ 291,251	\$ 259,441	\$ 184,132
LIABILITIES AND NET ASSETS			
Rollover account	\$ 50,324	\$ 45,873	\$ -
Net assets held in trust for pension benefits	240,927	213,568	184,132
Total liabilities and net assets	\$ 291,251	\$ 259,441	\$ 184,132

The Plan's condensed statements of revenues, expenses and changes in net assets for the years ended December 31, 2010, 2009, and 2008, are summarized as follows:

	2010	2009	2008
Investment income (loss)	\$ 21,658	\$ 30,095	\$ (109,649)
Employer contributions	31,289	37,630	8,943
Total income (loss)	52,947	67,725	(100,706)
Pension distributions	25,578	38,289	216,098
Other fees	10	-	-
Total expenses	25,588	38,289	216,098
Change in trust assets	27,359	29,436	(316,804)
Net assets, beginning of year	213,568	184,132	500,936
Net assets, end of year	\$ 240,927	\$ 213,568	\$ 184,132

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Notes to Basic Financial Statements (Continued)
Years Ended September 30, 2010 and 2009

10. Retirement Plans (continued):

The mix of Plan assets at December 31, 2010, 2009, and 2008, was as follows:

	December 31,		
	2010	2009	2008
Cash	1 %	0 %	0 %
Contribution receivable	7	18	4
Equity securities	92	82	96
Total plan assets	100 %	100 %	100 %

The Hospital contributed \$31,289 and \$37,630 for the plan years ended December 31, 2010 and 2009, respectively. Based on actuarial assumptions, the minimum contribution required in 2010 was \$20,966.

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

457(b) plan – The Teton Valley Hospital 457(b) Retirement Plan (the 457(b) Plan) is a deferred compensation pension plan and is offered to Hospital employees who are at least age 21. The employee contributions to the 457(b) Plan were \$211,787 and \$133,471 for the years ended September 30, 2010 and 2009, respectively. The Hospital did not contribute to this plan.

401(a) Plan – The Teton Valley Hospital 401(a) Plan (the 401(a) Plan) is an employer sponsored defined contribution pension 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. The Hospital provides contributions to the 401(a) Plan equal to a fixed match of the first 2% of employee deferrals made toward the 457(b) Plan. Hospital contributions to this plan were \$130,295 and \$65,696 for the years ended September 30, 2010 and 2009, respectively.

Teton Valley Hospital

**A Component Unit of Teton County, Idaho
Notes to Basic Financial Statements (Continued)
Years Ended September 30, 2010 and 2009**

11. Risk Management and Contingencies:

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

Medical malpractice claims – The Hospital has 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 does not have a 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 does not have a deductible.

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Notes to Basic Financial Statements (Continued)
Years Ended September 30, 2010 and 2009

12. 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, 2010 and 2009, were as follows:

	2010	2009
Medicare	16 %	14 %
Medicaid	11	6
Blue Cross and Blue Shield	12	9
Other commercial insurances	12	24
Self-pay	49	47
	100 %	100 %

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

13. Subsequent Events:

In the year ended September 30, 2011, the Hospital received funds from property taxes obtained through a special property tax levy to be used for maintenance and capital acquisitions. The special levy begins in the year ended September 30, 2011, and ends in the year ending September 30, 2012. The 2011 and 2012 special tax levy is 0.06% of the assessed property valuations in Teton County. The 2011 assessment value is \$1,815,491,779.

In December 2010, the Hospital sold its license to perform home health services at a price of \$43,300. Under the sale agreement, the Hospital also transferred ownership of certain assets including the home health accounts receivable balances, along with an automobile. Effective December 2010, the Hospital has ceased its home health services.

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 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, 2010, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated February 11, 2011. 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 opinions 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 10-01, 10-02, 10-04.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: 10-03, 10-05, 10-06.

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 11, 2011.

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

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
February 11, 2011

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Schedule of Findings and Responses
Year Ended September 30, 2010

Teton Valley Hospital

10-01 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"> ▪ Further training of financial staff in respect to preparing financial statements in accordance with GAAP. ▪ Contract with a separate accounting firm with the experience and training necessary to prepare such statements to review the financial statements. ▪ The Hospital could accept this finding on an annual basis because it is not a cost-effective use of resources.
<i>Management's Response</i>	The Hospital has hired a new Controller with experience preparing financial statements in accordance with generally accepted accounting principles. The new Controller is an Idaho licensed Certified Public Accountant (CPA), has Big 4 auditing and accounting experience, and previously worked for Idaho's largest health care system preparing financial statements. As a CPA the Controller is required to complete continuing professional education requirements and will focus that education on the needs of the organization. At this time the Hospital will accept the auditors' findings regarding the inability to prepare GAAP financial statements with the expectation that this finding will be mitigated with the hiring of the new Controller and training of staff.

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Schedule of Findings and Responses (Continued)
Year Ended September 30, 2010

Teton Valley Hospital

10-02 Revenue Cycle – Difficulties in Billing and Collecting Patient Accounts Receivable

Criteria 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.

[] Compliance Finding [X] Significant Deficiency [X] Material Weakness

Condition 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.

Context This finding appears to be a systemic problem.

Cause 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. Additional training for employees directly involved with the functions of billing and collections is necessary.

Effect There is an increased risk that amounts due to the Hospital will not be collected, or that collectible amounts will erroneously be written off.

Recommendation The Hospital should consider a combination of the following recommendations:

- Continue to receive additional training and support from their software vendors.
- Continue to provide external education opportunities to the business office employees.

Management’s Response The Hospital has experienced significant challenges within its billing department from limited resources and lack of experience and knowledge within the department. As an organization we are focusing heavily on revenue cycle improvements through education and training of staff, software updates, and implementation and review of controls. These improvements have, at times, been delayed due to necessary restructuring within the billing department and the hiring of the new Controller. The Hospital recognizes that improvements within the revenue cycle must be made and feels that the experience of the Business Office Manager and Controller will allow for significant advancements to be made in the upcoming year.

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Schedule of Findings and Responses (Continued)
Year Ended September 30, 2010

Teton Valley Health Care Foundation

10-03 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 [] Material Weakness
<i>Condition</i>	Numerous adjusting journal entries were proposed by the audit team to convert the Foundation's financial information to the accrual basis of accounting. Significant adjustments were made to Foundation account balances related to inventory, accounts payable accrual, and retained earnings.
<i>Context</i>	This finding appears to be a systemic problem.
<i>Cause</i>	Foundation books are not being kept on an accrual basis of accounting and balance sheet reconciliations are not being performed.
<i>Effect</i>	Financial reports are inaccurately depicting the Foundation's financial activity.
<i>Recommendation</i>	Hospital management should be assigned to oversee the Foundation bookkeeping to ensure accounts are reconciled on a monthly basis. Alternatively, the Foundation may choose to have the Hospital perform the bookkeeping function or engage an external CPA firm to perform or oversee the bookkeeping.
<i>Management's Response</i>	The Hospital recognizes the concern of the auditors as it relates to the Foundation accounting function and has taken it under consideration. The Hospital accounting department is in the process of assuming control of the accounting function of the Foundation, with review by the Controller, to mitigate the risk of the Foundation financial statements not being kept on an accrual basis.

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Schedule of Findings and Responses (Continued)
Year Ended September 30, 2010

Teton Valley Hospital and Teton Valley Health Care Foundation

10-04 Implementation of Policies and Procedures

<i>Criteria</i>	<p>Written policies and procedures should be maintained for all major, critical transaction cycles. These policies and procedures should be implemented in practice and continually monitored and reviewed to ensure that they are operating effectively.</p> <p>[] Compliance Finding [X] Significant Deficiency [X] Material Weakness</p>
<i>Condition</i>	Policies are not being used in practice.
<i>Context</i>	This finding appears to be a systemic problem.
<i>Cause</i>	Management has made efforts to develop written policies. However, further documentation is necessary. In addition, policies that had been written had not been approved by the Board of Trustees, and were not being used in the Hospital's daily operations. It appears the implementation of policies and procedures is not being monitored.
<i>Effect</i>	There is a risk that transactions will not be accurately recorded or reviewed. Lack of a formal set of policies and procedures also leads to inconsistency in practice, which oftentimes causes errors which are not caught.
<i>Recommendation</i>	We recommend policies be created and formally documented for all major transaction cycles and departments. These formal documents should be distributed to respective managers, and monitored for ongoing compliance.
<i>Management's Response</i>	The Board of Trustees recently approved an overreaching compliance policy that addresses all review function by category and measures utilization. The administration is working with managers to approve, implement, and monitor Finance policies. The reorganization of the Revenue Cycle Department included a completely new set of policies and procedures approved in the first quarter of fiscal year 2011. Management is focusing on monitoring the compliance and execution of policies and making compliance revisions as needed.

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Schedule of Findings and Responses (Continued)
Year Ended September 30, 2010

Teton Valley Hospital

10-05 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 [] Material Weakness
<i>Condition</i>	While conducting our audit procedures and during review of manual journal entries, we noted that the Controller and Cash Poster have the capability to post manual journal entries. We also noted that the CEO's review of these journal entries is based on reports printed by the Controller.
<i>Context</i>	This finding appears to be a systemic problem.
<i>Cause</i>	The Controller and Cash Poster have unrestricted system access to post journal entries to the general ledger. Therefore, it is important that a review is performed based on a report that is not generated by either of these individuals.
<i>Effect</i>	There is an increased risk of fraud or error in the financial reporting process to the Hospital.
<i>Recommendation</i>	The CEO should print a monthly report listing all manual journal entries posted by all hospital personnel. A log should be maintained listing those journal entries that have been reviewed, to ensure the review process is complete from month to month.
<i>Management's Response</i>	Prior to fiscal year end, the Hospital had implemented a review process for all manual journal entries. The review process was performed by the Consultant CFO and will continue with the new Controller. The Hospital has also developed a manual journal entry tracking and review process in which management will independently print a journal entry listing report to ensure that all entries have been reviewed by the appropriate level of management.

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Schedule of Findings and Responses (Continued)
Year Ended September 30, 2010

Teton Valley Hospital

10-06 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 safeguarded. 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. An employee without check writing capability should be designated to review cash disbursements. This duty may be filled by the CEO, or by the CFO if the check writing capability is removed and transferred to another staff member.
<i>Management's Response</i>	Due to limited finance department staffing, and the difficulty in developing this capability based on its cost prohibitive nature to the Hospital, the organization has accepted the auditors' findings in the past. However, with the restructure of the finance department, and the addition of the new Controller, the Hospital feels that the risks identified here will be significantly mitigated going forward.

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2010

- 09-01 Auditor preparation of the Hospital's audited financial statements** – repeated, see finding 10-01
- 09-02 Difficulties in billing and collecting patient accounts receivable** – repeated, see finding 10-02
- 09-03 Auditor detected adjusting journal entries** – repeated, see finding 10-03
- 09-04 No written financial policies or procedures** – repeated, see finding 10-04
- 09-05 No review or approval of manual journal entries** – repeated, see finding 10-05
- 09-06 Payroll processing – incompatible duties** – resolved
- 09-07 Incompatible duties of accounting personnel** – repeated, see finding 10-06