TETON VALLEY HEALTH CARE
Your Healthcare Elevated
120 East Howard Avenue, Driggs, Idaho 83422
208-354-2383 www.tvhcare.org

April 17, 2013

Teton County Board of Commissioners
150 Courthouse Drive
Driggs, ID 83422

RE: 2013 Q1 Hospital Lease / Report to Lessor

Teton County Commissioners,

Pursuant to the Hospital Lease Agreement as commenced January 1, 2013 between Teton County, Idaho and Teton Valley Health Care, Inc. (TVHC), enclosed please find the following documents and updates:

Article 4 / Operation and Use of Hospital

4.1) Reports to Lessor:

- Income Statement
- Balance Sheet
- Cash Flow Statement

Article 10 / Subordination to Current Bond

The Teton County, Idaho, Hospital Facilities Refunding Notes, Series 2002 were redeemed and paid in full as of March 15, 2013. The Noteholder surrendered the notes and received their payment in full as of March 15, 2013. Both Lessor and Lessee have no further obligation with respect to the Series 2002 notes.

Liquid Asset Transfer Agreement

Schedule 2 / Payment 1:

TVHC provided payment in the amount of $17,500 which is the prorated portion of the $70,000 annual payment for the period of January 1, 2013 through March 31, 2013.

We sincerely appreciate the opportunity to deliver quality health care to the community and visitors of Teton County, Idaho. Please direct inquiries to Traci Prenot, CFO @ 354-6340 or via email tprenot@tvhcare.org.

Sincerely,

Traci L. Prenot, CFO

TETON VALLEY HEALTH CARE, INC.
COMPARATIVE BALANCE SHEET
CALENDAR 2013 QTR 1

ASSETS	Mar 2013	Dec 2012	Variance
Current Assets			
Cash & Cash Equivalents	$ 2,311,069	$ 2,865,507	$ (554,438)
Restricted Cash	886,776	864,753	22,023
ST Investments 1 Yr TCD	162,903	0	162,903
Receivables			
Patient Receivables, Net of Estimated Reserves	1,884,051	2,065,562	(181,511)
Estimated Third-Party Payor Settlements	276,000	349,133	(73,133)
Other Receivable/Unrestricted Tax Levy	62,716	107,126	(44,410)
Capital Tax Levy	91,909	113,932	(22,023)
Supplies Inventory	642,178	483,704	158,474
Prepaid Expenses	204,161	161,389	42,772
Total Current Assets	6,521,763	7,011,106	(489,343)
Noncurrent Assets			
Capital Contribution	0	2,232	(2,232)
Deferred Financing Costs	0	0	0
Capital Assets, Net	2,551,349	2,682,393	(131,044)
LT Investment 2- 5 Yr TCD's	697,274	0	697,274
Total Noncurrent Assets	3,248,623	2,684,625	563,998
Total Assets	$ 9,770,386	$ 9,695,731	$ 74,655

LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts Payable & Accrued Expenses	$ 265,027	$ 289,117	$ (24,090)
Accrued Salaries & Benefits	878,101	843,016	35,085
Accrued Interest Payable	1,257	19,669	(18,412)
Estimated Third-Party Payor Settlements	0	0	0
Deferred Tax Levy Revenue	0	0	0
Current Maturities Bond	0	152,092	(152,092)
Current Maturities of Capital Lease Obligations	11,555	11,555	-
Total current Liabilities	1,155,940	1,315,450	(159,509)
Noncurrent Liabilities			
Note Payable	832,687	0	832,687
Long-term Debt Less Current Maturities.	0	510,494	(510,494)
Capital Lease Obligations Less Current Maturities	50,385	50,385	-
Net Pension Obligation	209,096	209,096	0
Total Noncurrent Liabilities	1,092,168	769,975	322,193
Net assets			
Invested in capital assets, net of related debt	1,891,199	1,984,040	(92,841)
Restricted for capital acquisition	978,685	976,778	1,907
Unrestricted	4,652,394	4,649,488	2,906
Total Net Assets	7,522,278	7,610,306	(88,028)
Total Liabilities and Net Assets	$ 9,770,386	$ 9,695,731	$ 74,656
Current Ratio:	5.6	5.3	

TVHC

Statement of Cash Flows-Mar 2013 YTD

Change in Net Assets			$ (88,028)
Cash flows from Operating Activities:			
Add (deduct) to reconcile net income to net cash flow:			
Depreciation & Amortization		$ 276,443	
Changes in Accounts Receivable		299,054	
Changes in Capital Levy Receivable		22,023	
Changes in Inventory		(158,474)	
Changes in Prepaid Expenses		(42,772)	
Changes in Accounts Payable & Accrued Expenses		(24,090)	
Changes in Accrued Salaries & Benefits		35,085	
Changes in Interest Payable		(18,412)	
Changes in Third-Party Payor Liability		-	
Changes in Deferred Tax Levy		-	
Changes in Current Debt		(152,092)	
Net cash inflow from Operating Activities			236,765
Cash flow from Capital & Investing Activities:			
Capital Expenditures		(145,399)	
Change in Capital Contributions from Foundation		2,232	
Change in Investments (short & long term)		(860,177)	
Deferred financing costs		-	
Net cash outflow from Investing Activities			(1,003,344)
Cash flow from Financing Activities			
Principal paid on long-term debt		(510,494)	
Note Payable (backed by TCDs)		860,000	
Principal paid on Note Payable		(27,314)	
Principal paid on capital lease obligations		-	
Capital lease obligations paid		-	
Net cash outflow from Financing Activities			322,192
Net Increase (decrease) in cash during period			$ (532,415)
Cash Balance start of period (unrestricted and restricted)	9/30/2012	$ 3,730,260	
Cash Balance end of period (unrestricted and restricted)	3/31/2013	3,197,845	
Net Increase (decrease) in cash during period			$ (532,415)
			(0)

TETON VALLEY HEALTH CARE, INC.
STATEMENT OF REVENUES & EXPENSES
QUARTER 1
CALENDAR YEAR 2013

	Q1 2013 Actual	Q1 2013 Budget	Q1 QTD Variance
Patient Revenue:			
Clinic Revenue	852,856	942,972	(90,116)
In-Patient Revenue	225,929	499,482	(273,553)
Out-Patient Revenue	2,723,442	3,091,872	(368,430)
Gross Patient Revenue	3,802,227	4,534,326	(732,099)
Deductions from Revenue:			
Contractual Allowances	678,357	812,628	134,271
Charity Care	0	62,499	62,499
Bad Debt	206,471	272,061	65,590
Total Deductions from Revenue	884,828	1,147,188	262,360
Net Patient Revenue	2,917,399	3,387,138	(469,739)
Other Revenue	21,744	8,661	13,083
Teton County Ambulance District contract	111,327	111,324	3
	133,071	119,985	13,086
Total Net Revenue	3,050,470	3,507,123	(456,653)
Operating Expenses			
Salaries	1,639,822	1,709,004	69,182
Benefits	381,808	424,518	42,710
Supplies/Minor Equipment	234,873	426,426	191,553
Contracted Services	310,992	289,236	(21,756)
Physician Services	118,693	160,314	41,621
Utilities & Telephone	37,634	47,013	9,379
Maintenance & Repairs	62,136	76,401	14,265
Insurance	30,050	27,501	(2,549)
Depreciation & Amortization	136,205	165,873	29,668
Other Expense	188,463	166,755	(21,708)
Total Expenses	3,140,676	3,493,041	352,365
Operating Income	(90,206)	14,082	(104,288)
Non Operating Revenue & Expense			
Interest income	1,593	876	717
Interest Expense	(12,140)	(12,195)	55
Grants	3,116	62,502	(59,386)
Teton County Tax Levy	9,609	0	9,609
License HH	0	0	0
Gain (loss) disposal of capital assets	0	0	0
Total Non Operating Income	2,178	51,183	(49,005)
Excess of Revenue over Expenses	(88,028)	65,265	(153,293)
Capital Grants	0	0	0
Capital contributions from Foundation	0	24,999	(24,999)
	(88,028)	90,264	(178,292)
Excess Revenue over Expense Margin	-2.9%	1.9%	
Change in Net Asset Margin	-2.9%	2.6%	

Teton Valley Hospital
A Component Unit of
Teton County, Idaho

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2012 and September 30, 2012

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Teton Valley Hospital
A Component Unit of Teton County, Idaho
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DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Teton Valley Hospital, a component unit of Teton County, Idaho (the Hospital) as of and for the three-month period ended December 31, 2012, and year ended September 30, 2012, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

12015 East Main, Suite A | Spokane Valley, WA 99206 | 509.242.0874 | www.dzacpa.com

Opinions

In our opinion, 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 the three-month period ended December 31, 2012, and year ended September 30, 2012, and the respective changes in financial position, and cash flows thereof for the period and year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has not presented the management's discussion and analysis that governmental 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
March 14, 2013

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Balance Sheets
December 31, 2012 and September 30, 2012

ASSETS	December 31, 2012	September 30, 2012
Current assets		
Cash and cash equivalents	$ **2,865,507**	$ 3,161,564
Receivables:		
Patient accounts, net of estimated uncollectibles of approximately $1,509,000 and $1,798,000, respectively	**2,095,266**	1,889,418
Estimated third-party payor settlements	**395,000**	320,000
Taxes	**43,162**	55,865
Other	**34,256**	80,676
Inventories	**483,704**	529,884
Prepaid expenses	**161,389**	83,357
Total current assets	**6,078,284**	6,120,764
Noncurrent assets		
Cash and cash equivalents restricted for capital additions	**864,753**	842,894
Taxes receivable restricted for capital additions	**113,932**	131,653
Capital contributions receivable	**2,232**	14,626
Deferred financing costs	**-**	16,835
Capital assets, net	**2,682,396**	2,821,512
Total noncurrent assets	**3,663,313**	3,827,520
Total assets	$ **9,741,597**	$ 9,948,284

See accompanying notes to basic financial statements.

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Balance Sheets (Continued)
December 31, 2012 and September 30, 2012

LIABILITIES AND NET POSITION	December 31, 2012	September 30, 2012
Current liabilities		
Current maturities of long-term debt	**$ 662,586**	$ 152,092
Current maturities of capital lease obligation	**11,555**	11,555
Accounts payable	**289,118**	342,505
Accrued payroll and related liabilities	**843,016**	819,957
Estimated third-party payor settlements	**45,867**	105,000
Accrued interest payable	**19,669**	9,655
Net pension obligation	**209,096**	-
Total current liabilities	**2,080,907**	1,440,764
Noncurrent liabilities		
Long-term debt, less current maturities	**-**	483,737
Capital lease obligation, less current maturities	**50,385**	50,385
Net pension obligation	**-**	140,765
Total noncurrent liabilities	**50,385**	674,887
Total liabilities	**2,131,292**	2,115,651
Net position		
Invested in capital assets, net of related debt	**1,938,201**	2,130,923
Restricted for capital acquisition	**980,917**	989,173
Unrestricted	**4,691,187**	4,712,537
Total net position	**7,610,305**	7,832,633
Total liabilities and net position	**$ 9,741,597**	$ 9,948,284

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 Position
Three-Month Period Ended December 31, 2012 and Year Ended September 30, 2012

	December 31, 2012	September 30, 2012
Operating revenues		
Net patient service revenue, net of provision for bad debts of $373,528 and $995,089, respectively	$ **3,088,316**	$ 12,906,482
Teton County Ambulance District contract	**111,327**	450,380
Grants	**-**	30,252
Other	**16,279**	82,065
Total operating revenues	**3,215,922**	13,469,179
Operating expenses		
Salaries and wages	**1,671,166**	6,329,858
Employee benefits	**397,033**	1,541,124
Purchased services	**497,948**	1,823,254
Supplies	**436,207**	1,683,127
Leases and rent	**30,188**	105,013
Repairs and maintenance	**56,460**	195,948
Utilities	**37,580**	169,893
Insurance	**28,023**	54,798
Depreciation and amortization	**139,116**	606,006
Other	**113,815**	284,210
Total operating expenses	**3,407,536**	12,793,231
Operating income (loss)	**(191,614)**	675,948
Nonoperating revenue (expense)		
Interest income	**94**	1,463
Contributions	**6,906**	42,218
Taxation for capital purchases	**15,892**	1,067,303
Gain on disposal of capital assets	**-**	6,233
Interest expense	**(13,042)**	(59,848)
Total nonoperating revenue (expense), net	**9,850**	1,057,369
Excess of revenues (expenses) before capital contributions from Foundation	**(181,764)**	1,733,317
Capital contributions from Foundation	**-**	188,966
Change in net position before extraordinary item	**(181,764)**	1,922,283
Extraordinary loss on bond extinguishment	**(40,564)**	-
Change in net position	**(222,328)**	1,922,283
Net position, beginning of year	**7,832,633**	5,910,350
Net position, end of year	$ **7,610,305**	$ 7,832,633

See accompanying notes to basic financial statements.

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Statements of Cash Flows
Three-Month Period Ended December 31, 2012 and Year Ended September 30, 2012

	December 31, 2012	September 30, 2012
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities		
Receipts from and on behalf of patients	**$ 2,748,335**	$ 13,172,482
Payments to and on behalf of employees	**(1,968,945)**	(7,862,314)
Payments to suppliers and contractors	**(1,246,904)**	(4,671,151)
Other receipts	**127,606**	560,214
Net cash provided by (used in) operating activities	**(339,908)**	1,199,231
Cash flows from noncapital financing activities		
Taxation for operations	**12,703**	89,924
Receipts of contributions	**6,906**	42,218
Net cash provided by noncapital financing activities	**19,609**	132,142
Cash flows from capital and related financing activities		
Principal paid on long-term debt	**-**	(143,864)
Principal paid on capital lease obligations	**-**	(10,682)
Interest on long-term debt and capital lease obligations	**-**	(49,745)
Sale of capital assets	**-**	16,943
Cash received from Foundation	**12,394**	277,169
Purchase of property and equipment	**-**	(315,422)
Taxation for capital acquisitions	**33,613**	1,035,635
Net cash provided by capital and related financing activities	**46,007**	810,034
Cash flows from investing activities		
Interest received	**94**	1,463
Net increase (decrease) in cash and cash equivalents	**(274,198)**	2,142,870
Cash and cash equivalents, beginning of year	**4,004,458**	1,861,588
Cash and cash equivalents, end of year	**$ 3,730,260**	$ 4,004,458

See accompanying notes to basic financial statements.

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Statements of Cash Flows (Continued)
Three-Month Period Ended December 31, 2012 and Year Ended September 30, 2012

	December 31, 2012	September 30, 2012
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	$ 2,865,507	$ 3,161,564
Cash and cash equivalents restricted for capital additions	864,753	842,894
Total cash and cash equivalents	$ 3,730,260	$ 4,004,458
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	$ (191,614)	$ 675,948
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	139,116	606,006
Provision for bad debts	373,528	995,089
Decrease (increase) in assets:		
Patient accounts receivable	(579,376)	(773,089)
Estimated third-party payor settlements	(75,000)	(61,000)
Other receivables	46,420	(41,039)
Inventories	46,180	(36,551)
Prepaid expenses	(78,032)	(63,426)
Increase (decrease) in liabilities:		
Accounts payable	(53,387)	(216,375)
Accrued payroll and related liabilities	23,059	8,668
Estimated third-party payor settlements	(59,133)	105,000
Net pension obligation	68,331	-
Net cash provided by (used in) operating activities	$ (339,908)	$ 1,199,231

See accompanying notes to basic financial statements.

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Teton Valley Hospital (the Hospital) operates a 13-bed critical access hospital and rural health clinic in Driggs, Idaho, and a rural health clinic in Victor, Idaho. The County Commissioners of Teton County, Idaho (the County) appoint 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 Board of Trustees consists of seven members who serve three-year terms. As organized, the Hospital is exempt from payment of federal and state income taxes.

See Note 12 regarding the change in organizational structure effective January 1, 2013.

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

The Foundation's condensed balance sheets at September 30, 2012 and 2011, are summarized as follows:

	2012	2011
Assets		
Cash	$ **311,057**	$ 347,862
Accounts receivable	**-**	5,421
Inventories	**46,106**	48,685
Property and equipment, net	**88,423**	96,513
Total assets	**445,586**	498,481
Liabilities		
Accrued expenses and other current liabilities	**54,690**	110,597
Note payable	**103,362**	113,244
Total liabilities	**158,052**	223,841
Net assets		
Temporarily restricted	**26,475**	131,174
Unrestricted	**261,059**	143,466
Total net assets	**287,534**	274,640
Total liabilities and net assets	$ **445,586**	$ 498,481

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, 2012 and 2011, are summarized as follows:

	2012	2011
Revenues		
Thrift Store revenue	$ 241,422	$ 265,670
Special event revenue, net of expenses of $10,948 and $6,331, respectively	12,769	24,086
Donations and grants	205,935	333,715
Other revenue	344	550
Total revenues	460,470	624,021
Expenses		
Contributions to Hospital	231,183	299,786
Other expense	216,393	232,149
Total expenses	447,576	531,935
Change in net assets	12,894	92,086
Net assets, beginning of year	274,640	182,554
Net assets, end of year	$ 287,534	$ 274,640

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 at 7.5%, and is collateralized by the thrift store building.

The Foundation's temporarily restricted net assets are restricted for various Hospital patient care programs.

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's accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

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

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

b. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents and taxes receivable restricted for capital acquisition – Such assets are set aside for future capital acquisitions as required by the special tax levy.

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.

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 are 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.

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.

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

b. Summary of Significant Accounting Policies (continued)

Net position – Net position of the Hospital is classified into three components. *Net position invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and deferred financing costs, reduced by current balances of any outstanding balances used to finance the purchase or construction of those assets. *Restricted net position* is the net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net position* is the remaining net position that does 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 position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing health care 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 health care services, other than financing costs.

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 March 14, 2013, the date on which the financial statements were available to be issued.

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

b. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements – In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, *The Financial Reporting Entity: Omnibus.* This statement, which is effective for financial statements for periods beginning after June 15, 2012, provides, among other things, additional guidance to primary governments that are business-type activities reporting financial information in a single column. New guidance, which includes reporting a blended component unit, allows users to better distinguish between the primary government and its component unit by requiring condensed combining information in the notes to the financial statements. The Hospital has adopted GASB Statement No. 61 during the period ended December 31, 2012, with no affect on the Hospital's financial statements.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This Statement, which is effective for financial statements for periods beginning after December 15, 2011, supersedes GASB Statement No. 20. The Hospital adopted GASB Statement No. 62 during the period ended December 31, 2012, and its provisions were applied retroactively for all periods presented. Adoption of GASB Statement No. 62 did not materially affect the Hospital's financial statements.

In June 2012, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,* which establishes standards for reporting deferred outflows and deferred inflows of resources and net position. The Statement requires reporting of deferred outflows of resources (consumption of net assets applicable to future periods) and deferred inflows of resources (acquisition of net assets applicable to future periods) in separate sections of the balance sheet following assets and liabilities. The difference between assets plus deferred outflows of resources less liabilities plus deferred inflows of resources equals net position and net position should be displayed in three components as: net investment in capital assets, restricted and unrestricted. GASB Statement No. 63 is effective for financial statement periods beginning after December 15, 2011. The Hospital adopted the provisions of the Statement in the period ended December 31, 2012, on a retroactive basis by reclassifying certain balance sheet elements for all periods presented. The adoption of GASB Statement No. 63 did not materially affect the Hospital's financial statements.

2. Net Patient Service Revenue:

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not quality for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows.

	December 31, 2012	September 30, 2012
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	**$ 1,059,908**	$ 4,548,883
Medicaid	**220,939**	1,097,294
Other third-party payors	**1,825,173**	6,721,939
Self-pay	**371,826**	1,654,463
	3,477,846	14,022,579
Less:		
Charity care	**16,002**	121,008
Provision for bad debts	**373,528**	995,089
Net patient service revenue	**$ 3,088,316**	$ 12,906,482

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

2. Net Patient Service Revenue (continued):

The Hospital's allowance for doubtful accounts for self-pay patients increased from 73 percent of self-pay accounts receivable at September 30, 2012, to 74 percent of self-pay accounts receivable as of December 31, 2012. In addition, the Hospital's self-pay write-offs were $373,528 and $995,089 for the three-month period ended December 31, 2012, and year ended September, 30, 2012, respectively. The Hospital has not changed its charity care or uninsured discount policies during the three-month period ended December 31, 2012, or year ended September 30, 2012. The Hospital does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

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

- *Medicare* – The Hospital is licensed as a critical access hospital and rural health clinic. The Hospital is reimbursed for most inpatient, outpatient, and rural health clinic services at cost with final settlement determined after submission of annual cost reports by the Hospital subject to audits thereof by the Medicare intermediary. Nonrural health clinic physician services are reimbursed based on fee schedules.

- *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 non fee-schedule services.

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

Revenue from the Medicare and Medicaid programs accounted for approximately 34% and 8%, respectively, of the Hospital's net patient revenue for the three-month period ended December 31, 2012, and 33% and 9% for the year ended September 30, 2012.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by approximately $1,000 in the three-month period ended December 31, 2012, and decreased by approximately $164,000 in the year ended September 30, 2012, due to differences between original estimates and final settlements or revised estimates.

2. Net Patient Service Revenue (continued):

The Hospital provides charity care to patients who are financially unable to pay for the health care services they receive. The Hospital's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the Hospital does not report these amounts in net operating revenues or in the allowance for doubtful accounts. The Hospital determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries, wages and benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the three-month period ended December 31, 2012 and the year ended September 30, 2012, were approximately $13,000 and $89,000, respectively.

3. 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 December 31, 2012 and September 30, 2012, the Hospital had no uninsured and uncollateralized deposit balances.

4. Patient Accounts Receivable:

Patient accounts receivable as of December 31, 2012 and September 30, 2012, consisted of these amounts:

	December 31, 2012	September 30, 2012
Patients and their insurance carriers	**$ 2,593,650**	$ 3,003,043
Blue Cross and Blue Shield	**442,565**	248,140
Medicare	**518,510**	371,218
Medicaid	**49,237**	64,661
Total patient accounts receivable	**3,603,962**	3,687,062
Less allowance for uncollectible amounts	**1,508,696**	1,797,644
Patient accounts receivable, net	**$ 2,095,266**	$ 1,889,418

5. Property Taxes:

For the year ended September 30, 2012, the Hospital received funds from property taxes obtained through a special property tax levy to be used for capital maintenance and acquisitions. The 2012 special tax levy is 0.07% of the assessed property valuations of $1,533,387,185 in Teton County. In the three-month period ended December 31, 2012, there were no taxes levied, although revenue was recognized for penalties and interest assessed on previous years unpaid taxes.

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.

6. Capital Assets:

Capital asset additions, retirements, and balances for the three-month period ended December 31, 2012, were as follows:

	Balance September 30, 2012	Additions	Retirements	Balance December 31, 2012
Capital assets not being depreciated				
Land	$ 92,671	$ -	$ -	$ 92,671
Capital assets being depreciated				
Buildings and improvements	4,680,256	-	-	4,680,256
Land improvements	16,525	-	-	16,525
Fixed equipment	278,666	-	-	278,666
Major movable equipment	4,272,031	-	-	4,272,031
Total capital assets being depreciated	9,247,478	-	-	9,247,478
Less accumulated depreciation for				
Buildings and improvements	(3,339,840)	(39,709)	-	(3,379,549)
Land improvements	(8,012)	(1,157)	-	(9,169)
Fixed equipment	(202,493)	(2,424)	-	(204,917)
Major movable equipment	(2,968,292)	(95,826)	-	(3,064,118)
Total accumulated depreciation	(6,518,637)	(139,116)	-	(6,657,753)
Total capital assets being depreciated, net	2,728,841	(139,116)	-	2,589,725
Capital assets, net	**$ 2,821,512**	**$ (139,116)**	**$ -**	**$ 2,682,396**

6. Capital Assets (continued):

Capital asset additions, retirements, and balances for the year ended September 30, 2012, were as follows:

	Balance September 30, 2011	Additions	Retirements	Balance September 30, 2012
Capital assets not being depreciated				
Land	$ 92,671	$ -	$ -	$ 92,671
Capital assets being depreciated				
Buildings and improvements	4,657,376	22,880	-	4,680,256
Land improvements	16,525	-	-	16,525
Fixed equipment	278,666	-	-	278,666
Major movable equipment	4,050,405	292,542	(70,916)	4,272,031
Total capital assets being depreciated	9,002,972	315,422	(70,916)	9,247,478
Less accumulated depreciation for				
Buildings and improvements	(3,164,659)	(175,181)	-	(3,339,840)
Land improvements	(3,384)	(4,628)	-	(8,012)
Fixed equipment	(189,719)	(12,774)	-	(202,493)
Major movable equipment	(2,615,075)	(413,423)	60,206	(2,968,292)
Total accumulated depreciation	(5,972,837)	(606,006)	60,206	(6,518,637)
Total capital assets being depreciated, net	3,030,135	(290,584)	(10,710)	2,728,841
Capital assets, net	**$ 3,122,806**	**$ (290,584)**	**$ (10,710)**	**$ 2,821,512**

7. Long-term Debt and Other Noncurrent Liabilities:

A schedule of changes in the Hospital's noncurrent liabilities for the three-month period ended December 31, 2012 and year ended September 30, 2012, were as follows:

	Balance September 30, 2012	Additions	Reductions	Balance December 31, 2012	Amounts Due Within One Year
Long-term debt					
Revenue bonds:					
2002 revenue bonds	$ 662,586	$ -	$ -	$ 662,586	$ 662,586
1996 bond defeasance interest	(39,436)	-	39,436	-	-
2002 bond premium	12,679	-	(12,679)	-	-
Total long-term debt	635,829	-	26,757	662,586	662,586
Capital lease obligation	61,940	-	-	61,940	11,555
Net pension obligation	140,765	68,331	-	209,096	209,096
Total noncurrent liabilities	**$ 838,534**	**$ 68,331**	**$ 26,757**	**$ 933,622**	**$ 883,237**

	Balance September 30, 2011	Additions	Reductions	Balance September 30, 2012	Amounts Due Within One Year
Long-term debt					
Revenue bonds:					
2002 revenue bonds	$ 806,450	$ -	$ (143,864)	$ 662,586	$ 152,092
1996 bond defeasance interest	(50,191)	-	10,755	(39,436)	-
2002 bond premium	15,641	-	(2,962)	12,679	-
Total long-term debt	771,900	-	(136,071)	635,829	152,092
Capital lease obligation	72,622	-	(10,682)	61,940	11,555
Net pension obligation	140,765	-	-	140,765	-
Total noncurrent liabilities	**$ 985,287**	**$ -**	**$ (146,753)**	**$ 838,534**	**$ 163,647**

7. 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 installments of $189,992, including interest at 5.72% through June 2016, collateralized by the net revenues of the Hospital.

These bonds include covenants that must be complied with as a condition of the bonds. Given the formation of a new corporation effective January 1, 2013 (see note 12), the Hospital is out of compliance with certain bond covenants beginning January 1, 2013, and as a result of this default, Wells Fargo Bank, N.A. issued a demand for payment notification letter dated February 11, 2013. The Hospital subsequently paid off the 2002 Revenue bonds in March 2013. The full balance of the bonds will be considered a current obligation as of December 31, 2012. All of the related unamortized deferred financing costs, defeasance interest, and bond premium will be written off in the period ended December 31, 2012, resulting in recognition of an extraordinary loss on bond extinguishment in the amount of $40,564.

Capital leases payable – Capital lease obligation, with monthly payments of $13,711 and interest at 3.48%, collateralized by real property, due in August 2017.

The lease obligation is reflected in the Hospital's assets and liabilities. The asset acquired under the capital lease had a capitalized cost of $119,883 as of December 31, 2012 and September 30, 2012, and accumulated amortization of $42,459 and $41,460 as of December 31, 2012 and September 30, 2012, respectively.

Scheduled principal and interest payments on the capital lease obligation are as follows:

Years Ending December 31,	Capital Lease Obligation Principal	Capital Lease Obligation Interest
2013	$ 11,555	$ 2,156
2014	11,957	1,753
2015	12,373	1,327
2016	12,804	907
2017	13,251	461
	$ 61,940	**$ 6,604**

8. Retirement Plans:

Actuarial calculations have been prepared using valuation methods and assumptions in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.*

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.

Effective December 31, 2012, the Plan has been terminated. However, it has not yet been settled because the Plan participants have received neither lump-sum nor annuity contracts in exchange for their rights to receive pension benefits. Settlement is expected to occur in May 2013. There is no effect of projected future compensation levels to report as of December 31, 2012, 2011, or 2010.

The annual required contribution for the current year was determined as part of the December 31, 2012, 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 4.75%, and (b) discount rate for benefit obligations of 4.75%. The actuarial value of assets was calculated to be equivalent to the market value of assets.

8. 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, 2012.

	December 31, 2012	December 31, 2011	December 31, 2010
Actuarial present value of benefit obligations			
Projected benefit obligation	**$ (395,590)**	$ (355,892)	$ (405,097)
Estimated market value of plan assets	**186,494**	215,127	240,927
Unfunded actuarial accrued liability	**$ (209,096)**	$ (140,765)	$ (164,170)
Estimated market value of Plan assets as a percentage of projected benefit obligation	47.1%	60.4%	59.5%

The Hospital's annual pension cost and net pension obligation for the years ended December 31, 2012 and 2011, are set forth in the following table.

	2012	2011
Annual Pension Cost and Net Pension Obligation		
Annual required contribution	**$ 19,755**	$ 16,402
Interest on net pension obligation	**(2,194)**	(490)
Adjustment to net pension obligation	**4,199**	938
Annual pension cost	**21,760**	16,850
Employer contributions	**(10,500)**	(52,711)
Decrease in net pension obligation	**11,260**	(35,861)
Annual pension obligation, beginning of year	**(46,184)**	(10,323)
Annual pension obligation, end of year	**$ (34,924)**	$ (46,184)

8. 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, 2012, 2011, and 2010, are summarized as follows:

ASSETS	2012	2011	2010
Cash	$ -	$ -	$ 3,500
Contribution receivable	-	35,000	20,789
Investments	236,679	231,425	266,962
Total assets	$ 236,679	$ 266,425	$ 291,251
LIABILITIES AND NET POSITION			
Benefit payments	$ -	$ 1,110	$ -
Rollover account	50,185	50,188	50,324
Net position held in trust for pension benefits	186,494	215,127	240,927
Total liabilities and net position	$ 236,679	$ 266,425	$ 291,251

The Plan's condensed statements of revenues, expenses and changes in net assets for the years ended December 31, 2012, 2011, and 2010, are summarized as follows:

	2012	2011	2010
Investment income (loss)	$ (18)	$ (619)	$ 21,658
Employer contributions	10,500	52,711	31,289
Total income	10,482	52,092	52,947
Pension distributions	39,115	77,892	25,578
Other fees	-	-	10
Total expenses	39,115	77,892	25,588
Change in trust assets	(28,633)	(25,800)	27,359
Net position, beginning of year	215,127	240,927	213,568
Net position, end of year	$ 186,494	$ 215,127	$ 240,927

8. Retirement Plans (continued):

The mix of Plan assets at December 31, 2012, 2011, and 2010, was as follows:

	December 31,		
	2012	**2011**	**2010**
Cash	**0 %**	0 %	1 %
Contribution receivable	**0**	13	7
Equity securities	**100**	87	92
Total plan assets	**100 %**	100 %	100 %

The Hospital contributed $10,500 and $52,711 for the plan years ended December 31, 2011 and 2010, respectively. Based on actuarial assumptions, the minimum contribution required in 2012 was $19,755.

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

Years Ending December 31,	**Amount**
2013	$ 9,825
2014	11,288
2015	11,091
2016	12,066
2017	12,403
2018-2021	76,104

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 approximately $58,000 for the three-month period ended December 31, 2012, and $230,000 for the year ended September 30, 2012. The Hospital did not contribute to this plan.

The 457(b) Plan has been terminated effective January 24, 2013. This plan will be replaced with the new Teton Valley Healthcare, Inc. Eligible 457 Prototype Plan, which was effective beginning January 1, 2013.

8. Retirement Plans (continued):

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 one year 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 approximately $53,000 and $201,000 for the three-month period ended December 31, 2012 and year ended September 30, 2012, respectively.

The 401(a) Plan has been terminated effective March 1, 2013. This plan will be replaced with the new Teton Valley Healthcare, Inc. 403(B) Plan, which was effective beginning January 1, 2013.

9. Employee Health Self-insurance:

The Hospital participates in a self-insured health insurance plan administered by Boulder Administration Services, Inc. (the TPA). Full-time employees are eligible to participate after reaching 90 days of employment. The Hospital records plan expenses as incurred. The Hospital also has an agreement with Pan American Life Insurance Company (the Company) to provide excess loss insurance coverage. The calculation of loss coverage is based upon a set dollar amount per covered employee. Plan expenses were approximately $129,000 and $770,000 for the three-month period ended December 31, 2012 and year ended September 30, 2012, respectively. The Hospital accrues an incurred but not reported liability for plan claims that had been incurred but that have not yet been reported to the TPA. The Hospital's liability for claims incurred but not reported was $71,000 as of December 31, 2012, and $71,000 as of September 30, 2012.

10. 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 Lexington Insurance Company (Lexington). The Lexington 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 Lexington 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.

10. Risk Management and Contingencies (continued):

Industry regulations – The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as: licensure, accreditations, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions known or unasserted at this time.

Health care reform – As a result of recently enacted federal health care reform legislation, substantial changes are anticipated in the United States of America's health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over approximately the next decade. The federal health care reform legislation does not affect the 2012 financial statements.

11. 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 December 31, 2012 and September 30, 2012, were as follows:

	December 31, 2012	September 30, 2012
Medicare	**18 %**	13 %
Medicaid	**2**	2
Blue Cross and Blue Shield	**14**	8
Other commercial insurances	**17**	17
Patients	**49**	60
	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.

12. Subsequent Events:

Organization – Effective January 1, 2013, a nonprofit corporation, Teton Valley Health Care, Inc., (the Corporation) was formed under the Idaho Nonprofit Corporation Act, Chapter 3, Title 30, of the Idaho Code. The Corporation has been set up to operate hospital operations, which were previously operated by Teton Valley Hospital, a component unit of Teton County, Idaho (the Hospital).

Articles of incorporation for the Corporation have been filed with the State of Idaho, effective January 2013, and the new entity shall be governed by a board of directors, consisting of not less than five members. The organization has also submitted a Form 1023, Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code. However, the Corporation has not received final approval from the Internal Revenue Service, although this is expected in 2013.

In conjunction with formation of the new Corporation, a Liquid Assets Transfer Agreement (LATA) has been executed between the Corporation and Teton County, Idaho (the County), and is effective January 1, 2013. This agreement calls for all rights, title, and interest in the liquid assets of the County, relating to hospital operations, to be transferred to the Corporation in exchange for payment of a yearly fee of $70,000 due annually in April, along with a yearly distribution equal to 5% of the Corporation's "Excess of Operating Revenues Over Expenses" as is shown on the audited financial statements. This earnings distribution must be paid to the County within 150 days of the Corporation's fiscal year end. In addition, the Corporation shall assume the obligations and liabilities of the County related to the cash and liquid assets of the Hospital. Liquid assets to be transferred shall include bank accounts, cash, tax levy and other liquid assets, and securities related to the operation of the hospital, as are reflected in the Corporation's business records. Under this agreement, the County also has the option to reinvest all or a portion of such payments received into the Hospital. The Corporation may also make written funding requests for improvements to the hospital.

In addition, a 99-year lease between the Corporation and the County has been signed, effective January 1, 2013. The agreement entitles the Corporation to lease from the County the hospital facility, including any real or personal property leases, as well as the property, plant, and equipment currently used in hospital operations. Annual consideration paid to the County will be $1.

Note payable – A loan agreement has been signed between the Corporation and KeyBank National Association, effective January 2, 2013. The loan is for $860,000, includes interest stated at a fixed rate of 2.7%, and matures on January 1, 2018. Under the agreement, certificate of deposit investment balances held by the Corporation totaling $859,964 have been pledged as collateral. The proceeds of the loan will be used to pay off the 2002 Revenue bonds and obligation relating to the Hospital's frozen defined benefit plan.

Revolving line of credit – A revolving line-of-credit agreement has been signed between the Corporation and KeyBank National Association, effective January 2, 2013. The line of credit available for draw is $1,000,000. Interest will be assessed at a variable rate and agreement expires on July 2, 2013. The Corporation's accounts, chattel paper, and general intangibles have been pledged as collateral under the agreement.

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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 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, the financial statements of the business-type activities, the discretely presented component units of Teton Valley Hospital as of and for the three-month period ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated March 14, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying schedule of findings and responses to be a material weakness (see finding 12-01a).

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

The Hospital's Response to the Finding

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
March 14, 2013

12-01a Auditor-Detected Adjusting Journal Entries

Criteria	There should be no significant or material adjusting journal entries made during the audit process. [ ] Compliance Finding [X] Significant Deficiency [X] Material Weakness
Condition	An adjusting journal entry was proposed by the audit team to adjust the allowance for doubtful accounts and contractual adjustments.
Context	This finding appears to be a systemic problem.
Cause	During the year end allowance reconciliation, a manual accrual entry had been posted by management to adjust the year end balance reported. This was found to result in an inaccurate allowance estimate.
Effect	Financial reports prepared for the board at month end were inaccurately depicting the Hospital's financial activity.
Recommendation	A review of the allowance in relation to the Hospital's adjustment activity should be performed to identify unreasonable swings in the allowance estimate.
Management's Response	Teton Valley Hospital follows a prescribed methodology which includes the net effects of all accounts receivable offset entries for estimating appropriate allowances for bad debt as well as contractual adjustments on a monthly basis. Due to the nature in which the clinic accounts receivable system (Centricity) accounts for bad debt, a manual entry is required to allocate current month's bad debt to the accounts receivable balance before loading said balances into the Excel template to follow the prescribed methodology. It was determined during the December close the bad debt expense entries were not performed for the months of October and November and an assumed entry was recorded as a debit to the allowance account when in fact it should have been posted as a debit to the expense account. This was a one-time accounting entry error. The Chief Financial Officer (CFO) has documented the necessary workflow including timing of events to insure the monthly entry is booked appropriately. As part of standard process, no manual entries will be performed without CFO approval.

Teton Valley Hospital
A Component Unit of Teton County, Idaho
Summary Schedule of Prior Audit Findings
Three-Month Period December 31, 2012

12-01 Auditor-Detected Adjusting Journal Entries – repeated, see finding 12-01a

RECEIVED
APR 03 2013
BY: BOCC

Rec'd 04/03/2013
BOCC-DF

Alta school
15 school Rd
Alta, WY
March 19, 20

Dear cuanty commissioners,

I believe we shold have a Rec center in Driggs because peope can ase it to be healthy.

After a hot day, people should be able to camp in a cold pool, so we should build a rec center. First oKa...

arters along hike peple are
hot and should be able to
jump into the cold water.
Second of all, peple are
sweaty on a very hot
day so they should be
able to jump into a cold
pool. For example people
would be sweaty after
a long hike. Last of
all peple are swety
in the summr and cant

bear it and should be able to have a nice cold pool at a rec cent

Everyone should go go swim swimming becase it is healthy. for example peple can swim laps to stay healty it is importan to be helthy because if you are not helthy you can get sick and die.

a ree centr wold
cost money bat pe ple
wold spend less mony
taking care of sik
peple. it costs mony
to run a rec centrer
but it gives jods to
peple who live in
teton vally jodsare
good.

a rec centr will
make evreone helth
(11)

I hope you make the

the right decision

and bald areL centrer

in the vally.

sicerely

sam clasen

Sam Clausen, 2nd Grade

Afton School
15 School Rd.
Afton WY 83110

POCATELLO ID 832
22 MAR 2013 PM 1 L

USA FIRST-CLASS FOREVER

county commissioners
150 courthouse Drive
Driggs ID 83422

83422+4997