



Grant Thornton

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS

ASPEN VALLEY HOSPITAL DISTRICT

December 31, 2009 and 2008

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Board of Directors
Aspen Valley Hospital District

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units and the aggregate remaining fund information of the Aspen Valley Hospital District (District) as of and for the years ended December 31, 2009 and 2008, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 as established by the American Institute of Certified Public Accountants. 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 of designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units and the aggregate remaining fund information of the Aspen Valley Hospital District as of December 31, 2009 and December 31, 2008 and, where applicable, the respective results of operations, changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 13 and the schedule of funding progress - cash balance retirement plan and schedule of employer contributions - cash balance retirement plan on pages 36 and 37 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Aspen Valley Hospital District's basic financial statements. The statement of budgeted and actual revenues and expenses, and combining financial statements for aggregate discretely presented component units supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Grant Thornton LLP

Wichita, Kansas

May 4, 2010

Aspen Valley Hospital District

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2009 and 2008

As management of Aspen Valley Hospital District, we offer readers of the financial statements this discussion and analysis of the financial activities of Aspen Valley Hospital (the Hospital) for the calendar years ended on December 31, 2009 and 2008.

The financial statements are broken into two columns – one for the Hospital and one for Component Units. The Component Units column represents the financial statements for joint ventures that are owned in part by the Hospital. Please see Footnote A1 in the Notes to the Financial Statements for a complete explanation of these arrangements. For purposes of this discussion and analysis, the financial results of the joint ventures are considered immaterial to the total Hospital's finances, and therefore are not specifically discussed herein.

We encourage readers to consider this discussion and analysis in conjunction with the accompanying financial statements.

FINANCIAL OVERVIEW

This discussion and analysis is intended to serve as an introduction to Aspen Valley Hospital District's basic financial statements, which are comprised of four components:

1. **Balance Sheets:** provides information about the Hospital's assets and liabilities and reflect the Hospital's financial position as of December 31, 2009 and 2008.
2. **Statements of Revenues, Expenses, and Changes in Net Assets:** reports the cumulative activity of providing healthcare services and the expenses related to such activity for the years ended December 31, 2009 and 2008.
3. **Statements of Cash Flows:** outlines the cash inflows and outflows related to the activity of providing healthcare services for the year ended December 31, 2009 and 2008.
4. **Notes to the Financial Statements:** provide explanation and clarification on specific items within the previously mentioned financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

1. BALANCE SHEETS

Financial Analysis

The Hospital's Total Assets at the end of 2009 were \$91,964,540 compared to \$84,462,148 for 2008 and \$81,618,470 at the end of 2007. The \$7,502,392 increase from 2008 Total Assets is attributable to increase in Patients Accounts Receivable, Prepaid Expenses; and decreases in Capital Assets and Other Assets. The increase of \$2,843,678 from 2007 is attributable to increases in Cash, Patient Accounts Receivable and Prepaid Expenses; and decreases in Capital Assets and Other Assets.

At December 31, 2009, Assets consisted primarily of Cash and Cash Equivalents of \$8,186,384, Net Patient Accounts Receivable of \$6,763,442, Investments of \$17,415,969, Assets Whose Use is Limited - Internally Designated for Capital Acquisitions of \$18,123,689, Assets Whose Use is Limited – Held by Trustee Under Bond Agreement of \$2,464,103 and Net Capital Assets of \$32,412,333.

Aspen Valley Hospital District

MANAGEMENT'S DISCUSSION & ANALYSIS - CONTINUED

December 31, 2009 and 2008

At December 31, 2008, Assets consisted primarily of Cash and Cash Equivalents of \$34,381,759, Net Patient Accounts Receivable of \$6,058,285, Investments of \$1,419,420, Assets Whose Use is Limited - Held by Trustee Under Bond Agreement of \$2,382,932 and Net Capital Assets of \$34,008,046. The \$2,225,422 decrease in Assets Whose Use is Limited - Held by Trustee Under Bond Agreement from 2007 is due to the completion of Phase I of Aspen Valley Hospital's Master Facilities Plan; The Aspen Birthing Center. The Aspen Birthing Center opened to the public in early November 2008, highlighting state of the art labor and delivery suites with an equally advanced nursery.

Comparable Asset balances at December 31, 2007, consisted primarily of Cash and Cash Equivalents of \$31,397,091, Net Patient Accounts Receivable of \$7,002,567, Investments of \$1,393,010, Assets Whose Use is Limited - Held by Trustee Under Bond Agreement of \$4,608,354, and Net Capital Assets of \$31,241,535.

In 2009, the Hospital restructured Assets of \$36,255,218 to reduce the risk of investment losses to Hospital Assets. \$1,419,420 of 2008 Investments, as well as \$34,512,109 of accumulated Cash and Cash Equivalents from prior years operational efficiencies, were converted into less risky investment instruments. The restructuring efforts noted an increase in Investments of \$15,996,549 and the establishment of Assets Whose Use is Limited - Internally Designated for Capital Acquisitions, designated by the Board of Directors, of \$18,123,689, (\$152,365 of which reflects accrued interest, and \$171,324 of realized interest.)

The continued stabilization in Net Patient Accounts Receivable and the increase in Cash and Cash Equivalents during 2009 and 2008 resulted from the reliable revenue cycle management of Computer Sciences Corporation (formerly First Consulting Group) and MedAssist, two outside billing specialists. An emphasis on timely communication with third-party payors and effective claim management were instrumental for growth in Cash and Cash Equivalents, Investments, and Assets Whose Use are Limited Internally Designated for Capital Acquisitions for 2009 and 2008.

The Hospital's Total Liabilities at December 31, 2009 were \$29,815,197; noting Accounts Payable of \$2,338,034, Accrued Liabilities of \$2,368,092, Patient and Insurance Refunds Payable of \$58,768, Unclaimed Refunds Payable of \$416,106, Long-Term Revenue Bonds Payable of \$21,835,085, Long-Term Capital Lease Obligations of \$1,009,743 and Long-Term Notes Payable of \$579,091.

The Hospital's Total Liabilities at December 31, 2008 were \$31,658,309; noting Accounts Payable of \$1,908,941, Accrued Liabilities of \$2,335,217, Patient and Insurance Refunds Payable of \$249,712, Unclaimed Refunds Payable of \$1,024,130, Due to Medicare of \$352,069, Long-Term Revenue Bonds Payable of \$22,403,621, Long-Term Capital Lease Obligations of \$1,580,508 and Long-Term Notes Payable of \$592,045.

At December 31, 2007, Total Liabilities were \$34,317,160 consisting primarily of Accounts Payable of \$5,151,850, Accrued Liabilities of \$2,705,991, Patient and Insurance Refunds Payable of \$340,021, Unclaimed Refunds Payable of \$972,470, Due to Medicare of \$190,709, Long-Term Revenue Bonds Payable of \$22,947,998, and Long-Term Capital Lease Obligations of \$923,884.

Aspen Valley Hospital District

MANAGEMENT'S DISCUSSION & ANALYSIS - CONTINUED

December 31, 2009 and 2008

In 2009, Total Liabilities decreased \$1,843,112 with a marked decrease in Unclaimed Refunds Payable. The reduction in this area was attributable to the re-evaluation of the recorded refunds to ensure proper classification and insurance adjudication of patient accounts. The evaluation showed \$664,458 of recorded refunds were adjudicated properly and thus not payable. The \$664,458 was recognized as income in 2009. Decreases were also noted in Long-Term Debt, Accrued Liabilities, Due to Medicare and Patient and Insurance Refunds Payable. There was an increase in Accounts Payable contributable to a single invoice received after the year-end Accounts Payable process.

The \$2,658,851 decrease in Total Liabilities for 2008 was attributable to the reduction of Accounts Payable, with payments of capital expenditures for the Aspen Birthing Center outstanding at the end of 2007, Long-Term Debt disbursements, the addition of Capital Lease Obligations, and the addition of a Note Payable. The Notes Payable line item came about with the purchase of an employee-housing unit in Basalt, Colorado's Holland Hills Subdivision, in October 2008. The purchase of the employee-housing unit emphasized the Hospital's Board of Director's, and the Hospital's Administration's commitment to implementing strategic tactics relating to employee recruitment and retention.

The Hospital reported Unrestricted Net Assets of \$50,784,050 in 2009, \$40,919,514 in 2008, and \$34,710,517 in 2007. The increase in Total Net Assets of \$9,345,504 from 2008 and \$5,502,529 from 2007 represent net income reported by the Hospital for each year. Net Assets represent the cumulative changes in gains and losses since the inception of the entity.

2. STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Patient Service Revenues

The Hospital classifies revenues as Operating and Nonoperating Revenues. Operating Revenues consist of Net Patient Service Revenues and Other Revenues. Net Patient Service Revenues result from direct patient care.

Net Patient Service Revenues increased \$2,363,414 or 4.4% in 2009 compared to \$1,093,170 or 2.1% in 2008. Net Patient Service Revenue for 2009 in total was \$55,843,357 compared to \$53,479,943 in 2008 and \$52,386,773 in 2007. The slow rate of growth in Net Patient Service Revenue for both 2009 and 2008 is directly attributable to the downturn in economic conditions experienced around the country.

The Hospital's Outpatient Service Revenues continue to exceed the Inpatient Service Revenues, with 70% of the Hospital's 2009 Patient Service Revenue generated by Outpatient Services compared to 67% for 2008, and 65% in 2007. The departments contributing most to Outpatient Revenues during these years were Outpatient Surgeries, Emergency Room, Laboratory, and Diagnostic Imaging.

The payor mix for the Hospital has remained consistent with prior year's experience. The largest portion of the Hospital's Patient Service Revenues were derived from Commercial health plans, 67% during 2009 and 2008, and 65% during 2007. In addition, the Hospital derived approximately 22.5% of Gross Revenues from Medicare in 2009 up .50% from 2008 and 2007. Payments for services rendered to patients under these programs are less than billed charges; therefore, the Hospital estimates a provision for contractual adjustments to reduce the total charges to estimated receipts,

Aspen Valley Hospital District

MANAGEMENT'S DISCUSSION & ANALYSIS - CONTINUED

December 31, 2009 and 2008

based upon contractual arrangements. Due to the complicated nature of the contracts and the governmental programs, the actual payments received could differ from the estimates.

Other Operating Revenues consist of services provided by the Hospital not directly related to patient care. In 2009, the Hospital reclassified \$377,434 of fees received from the Aspen Ambulance District for management of their operations to Other Operating Revenues from Nonoperating Revenues. Comparably, fees received by the Hospital from the Aspen Ambulance District in 2008 were \$301,506. The \$257,442 increase in Other Operating Revenues from 2008 is attributable to increases in Cafeteria sales and Rental income from employee housing. In 2008, Other Operating Revenues had an increase of \$108,759. The increase for 2008 was attributable to increased Cafeteria sales and a modest rent increase at Whitcomb Terrace, the assisted living facility operated by the Hospital.

Nonoperating Revenues and Expenses are comprised of Ad Valorem Taxes, Investment Income, Interest Expense, Noncapital Contributions for Operations, Gain or Loss on Investment in Joint Venture and Gain or Loss on Disposal of Equipment. Nonoperating Revenues and Expenses for 2009 were \$4,343,382 compared to \$2,886,712 in 2008 (adjusted per above notes) and \$3,285,295 for 2007. The \$1,456,670 increase from 2008 in Nonoperating Revenues and Expenses were attributable to increased Noncapital Contributions of \$791,989, increases of \$131,018 in Investment Income, an increase of \$93,283 in Ad Valorem Taxes and decreased Interest Expense of \$185,699. Gains (Loss) on Disposal of Capital Assets increased \$277,928 over 2008 data. The \$398,583 decrease in 2008 is primarily due to \$580,001 of additional Ad Valorem Taxes received for rebased property values in Pitkin County and a reduction in Investment Income of \$866,186 due to reduced rates of interest.

Expenses

In 2009, Operating Expenses increased \$1,247,680 from 2008 reported data. Increases of \$809,766 were attributable to Salaries and Wages, \$1,286,544 from Supplies and Other and \$371,000 from Depreciation and Amortization. However, decreases in Contract Labor of \$1,219,630 were also noted. In 2009, a contingency plan of operations was instituted to hold Full-Time Equivalent and Operational Expense growth to lower than budgeted numbers. Operating Expenses increased \$4,869,213 in 2008. Instrumental to this increase was Salaries and Wages contributing a \$1,638,738 increase over 2007. In 2008, the Hospital experienced growth in Full-Time Equivalents needed to maintain current service line demands. With this growth, key executive and managerial positions were in a state of transition. This caused \$636,447 of additional expense in the Contract Labor line to cover unexpected usage of agency personnel in clinical departments as well as in key administrative positions. The Supplies and Other section of Operating Expenses contributed \$1,704,587 towards the increase as well. Within this line item, Patient Care Supplies used in the direct care of patients had a modest increase of \$195,792; Maintenance & Utilities had a \$443,641 contribution to the 2008 increase, as well as Employee Benefits with \$137,030 and Miscellaneous Expense with \$507,956. Within the Miscellaneous Expense change, the Hospital entered into an operating lease to finance state of the art equipment and engaged the services of off-site storage facilities to store digital radiological images.

Aspen Valley Hospital District

MANAGEMENT'S DISCUSSION & ANALYSIS - CONTINUED

December 31, 2009 and 2008

Bad Debt Expense

The collection of receivables from third-party payors and patients is the Hospital's primary source of cash and is, therefore, critical to the Hospital's operating performance.

The primary collection risks are related to patients' payment portions not covered by their primary insurance (deductibles and co-payments). The Hospital estimated the Bad Debt Expense based primarily upon the age of Accounts Receivable and the effectiveness of the Hospital's third-party payor collection efforts.

Significant changes in payor mix, Hospital operations, economic conditions, and trends in Federal and State governmental health care coverage affect the Hospital's collection of Accounts Receivable, Cash Flows, and Results of Operations.

In 2009, the Hospital reported Bad Debt Expense of \$2,046,383, compared to \$2,938,033 for 2008 and \$283,794 for 2007. The marked fluctuations in the Bad Debt Expense for 2009 and 2008 are directly related to Computer Sciences Corporation (formerly First Consulting Group) and MedAssist's analysis, recommendations for modification, and implementation of improved billing and collection processes. The favorable Bad Debt Expense in 2007 is attributable to a decrease in the write-off of aged Patient Accounts Receivables due to higher collections than expected. Bad Debt Expense is included in Net Patient Service Revenue.

Accounts written-off as Charity and Indigent Care and are included in Net Patient Service Revenue. Charity and Indigent Care write-offs were \$2,199,117 or 3.0% of Gross Patient Service Revenue, compared to \$2,624,014 or 3.7% of Gross Patient Service Revenue for 2008, and \$2,160,243 or 3.1% of Gross Patient Service Revenue for 2007.

3. STATEMENTS OF CASH FLOWS

Liquidity and Capital Resources

Aspen Valley Hospital's cash flows from operations and Ad Valorem Taxes provide the primary sources of funding for the Hospital's ongoing cash needs.

The following is a summary of cash flows for the calendar years ended on December 31, 2009, 2008, and 2007:

<u>Cash flows</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Activities	\$ 6,880,841	\$ 6,230,051	\$ 9,004,371
Noncapital Financing Activities	4,410,971	3,525,699	2,961,320
Capital & Related Financing Activities	(4,864,013)	(9,786,832)	(8,055,399)
Investing Activities	<u>(32,542,003)</u>	<u>790,328</u>	<u>373,029</u>
Net Increase/(Decrease) in Cash	<u><u>\$ (26,114,204)</u></u>	<u><u>\$ 759,246</u></u>	<u><u>\$ 4,283,321</u></u>

Aspen Valley Hospital District

MANAGEMENT'S DISCUSSION & ANALYSIS - CONTINUED

December 31, 2009 and 2008

In 2009, the Hospital's Cash Flow from Operations increased \$650,790 over 2008 from decreased payments from patients and third-party payors of \$847,441, an increase of cash received from others of \$760,631, a decrease in cash paid to suppliers of \$1,205,455 and an increase of cash paid to employees of \$467,855 (a reduction in cash.) The Hospital's Cash Flow from Operations decreased \$2,774,320 in 2008 from a mixture of increased payments from patients and third-party payors of \$1,010,175, an increase in cash received from others of \$1,937,663 increased payments to suppliers of \$4,073,626 (a reduction in cash), and an increase in payments to employees of \$1,648,532 (also a reduction in cash).

Noncapital Financing provided \$93,283 positive cash flow from additional Ad Valorem taxes and \$791,989 from Noncapital Contributions. The Noncapital Contributions were granted to the Hospital by the Aspen Valley Medical Foundation for the start-up operational costs related to Quality Health Network's (QHN) medical health record product. The \$564,379 increase of Noncapital Financing for 2008 was attributable to the increase in assessed property values in Pitkin County, which resulted in an increase of Ad Valorem Taxes of \$580,001 from 2007 to 2008 and a \$15,622 reduction in Noncapital Contributions made to the Hospital.

In 2009, Cash Flow activities used in Capital & Related Financing decreased by \$4,922,819. The main driver in this area was the decreased purchases of capital assets. Along with the contingency operational policies put in place early in 2009, Capital Asset purchases were also monitored. Capital & Related Financing decreased \$1,731,433 from 2007, primarily due to the decrease in sale of assets and capital contributions.

Investing Activities were the Hospital's biggest outflow of cash in 2009. The Hospital purchased \$34,087,873 of Investments; \$17,971,324 of which was internally designated by the Board of Directors for the purchase of capital assets. Investing Activities posted a \$417,299 increase over 2007 due to less Investment Income of \$866,186 received from interest bearing accounts, increased Member Distributions from Component Units of \$159,632 and the influx of \$642,747 of Equity into a new Component Unit for 2008; Midvalley Imaging Center, LLC.

Outstanding Debt Securities

The Hospital did not issue additional debt in 2009 or 2008. On February 12, 2007, the outstanding Series 2000 and 2001 bonds were defeased with the issuance of Hospital Refunding Bonds – Series 2007. Proceeds from the bonds were used to purchase securities that were deposited in trust under an escrow agreement sufficient to pay future principal and interest and redemption premiums on the defeased bonds. Additionally, a loss on refunding of \$991,240 was recorded by the Hospital. These refunding activities resulted in the reduction of expenses relating to Long-Term Debt.

On October 15, 2003, Aspen Valley Hospital issued Revenue Bonds in the amount of \$11,715,000, with an irrevocable letter of credit. Pursuant to the issuance of the Revenue Bonds, the Hospital signed a Reimbursement Agreement, which contained covenants that were met by the Hospital during the calendar years 2009 and 2008.

Aspen Valley Hospital District

MANAGEMENT'S DISCUSSION & ANALYSIS - CONTINUED

December 31, 2009 and 2008

BUDGETARY HIGHLIGHTS

Aspen Valley Hospital is responsible for funding expenses from Cash generated through its Operations and from the Ad Valorem Taxes received during the calendar year. The Hospital prepares a budget to reflect the expected revenues and expenses generated through its operations. Annual Budgets are adopted as required by Colorado Statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with generally accepted accounting principles.

The Hospital's Board of Directors approved the 2009 and 2008 budgets during the last quarter of the 2008 and 2007 calendar years, respectively. There were no amendments made to the original budgets presented to the State of Colorado for the calendar years 2009 and 2008.

During 2009, Net Patient Service Revenue was \$3,227,437 (6.1%) higher than budget, while Operating Expense was \$1,227,502 (2.0%) lower than budget. In 2008, Net Patient Service Revenue was \$452,704 (0.8%) lower than budget, while Operating Expenses were \$1,018,515 (1.9%) lower than budget due to extensive hospital-wide cost reductions.

Please see Attachment A for the Statement of Budget and Actual Revenues and Expenses for the year ended December 31, 2009.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

During 2009, the hospital experienced declines in its patient volumes due to the difficult economic conditions plaguing the country. As a result, Gross Revenues for 2009 were essentially flat compared to 2008 (2.1% increase). Because of cost containment efforts at the hospital in 2009, Expenses for the year increased only 2.36% compared to 2008. Those efforts, coupled with an increase in Net Patient Service Revenues (\$2,363,414), an increase in total Contributions (\$903,903) and a reduction in Interest Expense (\$185,699), combined to produce a gain in 2009 that was almost \$4 million higher than 2008.

The Hospital continues to outsource its billing office to Computer Sciences Corporation (formerly First Consulting Group) and MedAssist located in St. Louis, Missouri. This arrangement, which has been in place since 2005, continues to result in the extraordinary management of Accounts Receivable. Evidence of this is in the fact that net days in accounts receivable for both 2008 and 2009 were below 40 days. In addition, unrestricted cash balances in 2009 grew at a brisk pace of 21.7% (\$7.8 million) from the 2008 levels.

In constructing the Hospital's 2010 budget, management took into account the effects of the local and national economy, and anticipated volume declines of approximately 3.6%. Therefore, Gross Revenues for 2010 will be essentially flat (0.4% increase) when compared to 2009. Expenses for 2010 are expected to rise 4.9% over 2009, so the anticipated gain for 2010 will be \$4.7 million, a reduction of \$3.6 million from 2009.

Aspen Valley Hospital District

MANAGEMENT'S DISCUSSION & ANALYSIS - CONTINUED

December 31, 2009 and 2008

Beginning in the fall of 2010, the Hospital anticipates beginning construction on a major renovation and expansion project. This phase of the project will cost approximately \$35-40 million, and will require 12 to 14 months to complete. Funding for the project will come from a new issue of Revenue Bonds in the summer of 2010, and from internal cash reserves. Further phases of the project will be considered in future years, depending on the availability of funding.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This management discussion and analysis report is designed to provide interested parties with a general overview of Aspen Valley Hospital District's financial activity for the 2009 and 2008 calendar years and to demonstrate the Hospital's accountability for the money it received for providing healthcare services to members of this community and others. If you have questions about this report or need additional information, please contact Terry Collins, Aspen Valley Hospital District's Chief Financial Officer, at 0401 Castle Creek Road, Aspen, Colorado 81611.

Aspen Valley Hospital District

STATEMENT OF BUDGET AND ACTUAL REVENUES AND EXPENSES

Year ended December 31, 2009

	Budgeted Amount	Actual	Favorable (Unfavorable) Variance
Patient Service Revenues			
Ambulance	\$ 1,203,029	\$ 1,041,622	\$ (161,407)
After Hours Care Clinic	527,378	172,194	(355,184)
Cardiac Rehabilitation	171,914	213,139	41,225
Cardiology Clinic	2,101,256	2,057,303	(43,953)
Cardiopulmonary	2,109,947	2,057,997	(51,950)
Diabetes Education	26,991	43,236	16,245
Diagnostic Imaging	11,799,828	11,427,276	(372,552)
Emergency Room	9,345,338	9,861,582	516,244
Endoscopy	629,716	770,869	141,153
Intensive Care Unit	1,006,656	961,055	(45,601)
Laboratory	7,751,444	7,710,002	(41,442)
Mental Health	15,483	-	(15,483)
Nutritional Services	6,338	7,804	1,466
Obstetrics	2,135,702	2,416,451	280,749
Oncology	428,029	377,465	(50,564)
Pain Management Clinic	463,338	492,728	29,390
Patient Care Unit	4,734,763	4,026,049	(708,714)
Pharmacy	5,374,310	4,402,872	(971,438)
Physical Therapy	3,173,911	2,825,332	(348,579)
Recovery	993,942	1,174,846	180,904
Same Day Surgery	457,680	553,998	96,318
Surgery	17,802,254	20,212,875	2,410,621
Total Patient Service Revenues	72,259,247	72,806,695	547,448
Revenue Deductions	(19,643,327)	(16,963,338)	2,679,989
Net Patient Service Revenues	52,615,920	55,843,357	3,227,437
Other Revenues	2,085,112	2,220,991	135,879
Total Operating Revenues	54,701,032	58,064,348	3,363,316
Operating Expenses			
Admissions	708,331	660,142	48,189
After Hours Care Clinic	823,243	791,324	31,919
Ambulance	1,302,833	1,403,828	(100,995)
Cardiac Rehabilitation	220,619	217,994	2,625
Cardiology Clinic	683,683	689,114	(5,431)

Aspen Valley Hospital District

STATEMENT OF BUDGET AND ACTUAL REVENUES AND EXPENSES - continued

Year ended December 31, 2009

	Budgeted Amount	Actual	Favorable (Unfavorable) Variance
Cardiopulmonary	\$ 1,176,479	\$ 1,043,128	\$ 133,351
Community Relations	772,530	587,028	185,502
Diabetes Education	103,790	98,275	5,515
Diagnostic Imaging	4,070,593	4,250,126	(179,533)
Emergency Room	4,880,189	4,665,684	214,505
Employee Health	173,470	162,015	11,455
Employee Housing	809,831	639,006	170,825
Endoscopy	221,909	167,070	54,839
Engineering	2,397,236	2,219,109	178,127
Finance	205,018	842,651	(637,633)
General & Administrative	3,167,032	3,869,461	(702,429)
Health Information Systems	885,139	788,317	96,822
Housekeeping & Laundry	731,354	686,748	44,606
Human Resources	6,610,861	6,014,649	596,212
Information Technology	3,325,699	3,304,550	21,149
Intensive Care Unit	741,739	601,889	139,850
Laboratory	2,852,995	2,883,311	(30,316)
Language Resources	74,459	77,135	(2,676)
Legal & Compliance	425,287	381,431	43,856
Materials Management	459,680	570,113	(110,433)
Medical Staff	70,782	51,527	19,255
Nursing Education	76,829	103,372	(26,543)
Nutritional Services	1,021,614	939,383	82,231
Obstetrics	1,764,096	1,379,683	384,413
Oncology	503,749	358,007	145,742
Pain Management Clinic	151,762	177,488	(25,726)
Patient Care Unit	2,178,171	1,972,129	206,042
Patient Financial Services	2,145,970	2,271,849	(125,879)
Pharmacy	2,534,824	2,014,949	519,875
Physical Therapy	1,298,171	980,139	318,032
QA/Risk Management	374,463	321,804	52,659
Recovery	336,557	328,793	7,764
Same Day Surgery	341,363	379,147	(37,784)

Aspen Valley Hospital District

STATEMENT OF BUDGET AND ACTUAL REVENUES AND EXPENSES - continued

Year ended December 31, 2009

	Budgeted Amount	Actual	Favorable (Unfavorable) Variance
Surgery	\$ 3,685,553	\$ 4,317,217	\$ (631,664)
Trauma Services	127,046	103,639	23,407
Utilization Review & Discharge	170,050	135,013	35,037
Whitcomb Terrace	762,689	691,949	70,740
Total Operating Expenses	55,367,688	54,140,186	1,227,502
Operating Income	(666,656)	3,924,162	4,590,818
Nonoperating Revenues (Expenses)			
Ad Valorem Taxes	3,517,093	3,517,092	(1)
Investment Income	750,000	869,059	119,059
Interest Expense	(1,350,445)	(992,601)	357,844
Contributions for Operations	37,698	893,879	856,181
Gain on Investment in Equity Investee	450,008	43,009	(406,999)
Other	-	12,944	12,944
Total Nonoperating Revenues (Expenses)	3,404,354	4,343,382	939,028
Income Before Capital Contributions, Member Distributions and Equity Contribution	2,737,698	8,267,544	5,529,846
Capital Contributions	662,302	182,910	(479,392)
Member Distributions	-	895,050	895,050
Equity Contribution	-	-	-
Change in Net Assets	\$ 3,400,000	\$ 9,345,504	\$ 5,945,504

FINANCIAL STATEMENTS

Aspen Valley Hospital District

BALANCE SHEETS

December 31,

ASSETS

	2009		2008	
	Aspen Valley Hospital	Component units	Aspen Valley Hospital	Component units
CURRENT ASSETS				
Cash and cash equivalents	\$ 8,186,384	\$ 702,776	\$34,381,759	\$ 423,825
Patient accounts receivable, net	6,763,442	618,700	6,058,285	711,126
Due from Medicare	287,668	-	-	-
Contributions receivable	504,401	-	523,274	-
Other receivables	1,423,532	64,963	1,396,013	17,458
Inventories	1,626,037	121,444	1,609,476	142,024
Investments	17,415,969	-	1,419,420	-
Prepaid expenses	1,062,163	78,866	581,366	170,473
Total current assets	37,269,596	1,586,749	45,969,593	1,464,906
ASSETS WHOSE USE IS LIMITED INTERNALLY DESIGNATED FOR CAPITAL ACQUISITIONS	18,123,689	-	-	-
ASSETS WHOSE USE IS LIMITED HELD BY TRUSTEE UNDER BOND AGREEMENT	2,464,103	-	2,382,932	-
CAPITAL ASSETS				
Land	267,057	-	267,057	-
Depreciable capital assets, net of accumulated depreciation	32,145,276	1,234,362	33,740,989	1,466,549
Total capital assets, net of accumulated depreciation	32,412,333	1,234,362	34,008,046	1,466,549
OTHER ASSETS				
Contributions receivable	618,654	-	749,280	-
Physician guarantees receivable	363,563	-	694,681	-
Investment in joint venture	213,092	-	125,720	-
Other (net)	499,510	127,395	531,896	152,067
Total other assets	1,694,819	127,395	2,101,577	152,067
Total assets	<u>\$91,964,540</u>	<u>\$2,948,506</u>	<u>\$84,462,148</u>	<u>\$3,083,522</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	2009		2008	
	Aspen Valley Hospital	Component units	Aspen Valley Hospital	Component units
CURRENT LIABILITIES				
Current maturities of long-term debt	\$ 1,210,278	\$ -	\$ 1,212,066	\$ -
Accounts payable	2,338,034	56,586	1,908,941	81,922
Accrued salaries, benefits and payroll taxes	1,400,658	22,375	1,202,485	-
Other accrued liabilities	967,434	576,603	1,132,732	145,680
Refunds payable	58,768	-	249,712	-
Unclaimed refunds payable	416,106	-	1,024,130	-
Due to Medicare	-	-	352,069	-
Total current liabilities	6,391,278	655,564	7,082,135	227,602
LONG-TERM DEBT				
Revenue bonds payable	21,835,085	-	22,403,621	-
Capital lease obligations	1,009,743	-	1,580,508	-
Note payable	579,091	-	592,045	-
Total long-term debt	23,423,919	-	24,576,174	-
Total liabilities	29,815,197	655,564	31,658,309	227,602
CONTINGENCIES AND COMMITMENTS				
NET ASSETS				
Invested in capital assets, net of related debt	7,778,136	-	8,219,806	-
Restricted				
For debt service	2,464,103	-	2,391,965	-
Expendable for capital acquisitions	506,030	-	1,226,054	-
Expendable for specific operating activities	617,024	-	46,500	-
Reserved for minority interests	-	1,019,264	-	1,231,391
Unrestricted	50,784,050	1,273,678	40,919,514	1,624,529
Total net assets	62,149,343	2,292,942	52,803,839	2,855,920
Total liabilities and net assets	\$91,964,540	\$2,948,506	\$84,462,148	\$3,083,522

Aspen Valley Hospital District

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year ended December 31,

	2009		2008	
	Aspen Valley Hospital	Component units	Aspen Valley Hospital	Component units
Operating revenues				
Net patient service revenue	\$55,843,357	\$4,450,116	\$53,479,943	\$3,714,715
Other revenues	2,220,991	13,060	1,963,549	-
Total operating revenues	58,064,348	4,463,176	55,443,492	3,714,715
Operating expenses				
Salaries and wages	21,496,620	935,318	20,686,854	904,696
Contract labor	1,418,682	-	2,638,312	-
Supplies and other	26,743,835	2,018,654	25,457,291	1,639,410
Depreciation and amortization	4,481,049	339,482	4,110,049	220,966
Total operating expenses	54,140,186	3,293,454	52,892,506	2,765,072
Operating income	3,924,162	1,169,722	2,550,986	949,643
Nonoperating revenues (expenses)				
Ad valorem taxes	3,517,092	-	3,423,809	-
Investment income	869,059	14,538	738,041	18,557
Interest expense	(992,601)	-	(1,178,300)	-
Noncapital contributions	893,879	-	101,890	-
Gain on investment in joint venture	43,009	-	66,256	-
Gain (loss) on disposal of capital assets	12,944	-	(264,984)	-
Total nonoperating revenues (expenses)	4,343,382	14,538	2,886,712	18,557
Income before capital contributions, member distributions, net and equity contributions	8,267,544	1,184,260	5,437,698	968,200
Capital contributions	182,910	-	70,996	-
Member distributions	895,050	(1,755,000)	636,582	(950,000)
Equity contributions	-	7,762	(642,747)	1,227,488
Change in net assets	9,345,504	(562,978)	5,502,529	1,245,688
Net assets at beginning of year	52,803,839	2,855,920	47,301,310	1,610,232
Net assets at end of year	\$62,149,343	\$2,292,942	\$52,803,839	\$2,855,920

The accompanying notes are an integral part of these statements.

Aspen Valley Hospital District

STATEMENTS OF CASH FLOWS

Year ended December 31,

	2009		2008	
	Aspen Valley Hospital	Component units	Aspen Valley Hospital	Component units
Cash flows from operating activities				
Cash received from patients and third-party payors	\$53,699,495	\$4,542,542	\$54,546,936	\$3,821,599
Cash received from (paid to) others	2,770,398	(49,445)	2,009,767	(7,198)
Cash paid to suppliers	(28,290,605)	(1,493,118)	(29,496,060)	(1,533,207)
Cash paid to employees	(21,298,447)	(912,943)	(20,830,592)	(904,696)
Net cash provided by operating activities	6,880,841	2,087,036	6,230,051	1,376,498
Cash flows from noncapital financing activities				
Ad valorem taxes	3,517,092	-	3,423,809	-
Noncapital contributions	893,879	-	101,890	-
Net cash provided by noncapital financing activities	4,410,971	-	3,525,699	-
Cash flows from capital and related financing activities				
Purchases of capital assets	(2,830,286)	(67,623)	(7,343,408)	(1,356,042)
Proceeds from the sale of capital assets	19,284	-	-	-
Principal payments on debt	(1,243,320)	-	(1,336,120)	-
Interest payments on debt	(992,601)	-	(1,178,300)	-
Capital contributions	182,910	-	70,996	-
Net cash used in capital and related financing activities	(4,864,013)	(67,623)	(9,786,832)	(1,356,042)
Cash flows from investing activities				
Purchases of investments, net	(16,116,549)	-	(26,410)	-
Investment income	575,183	14,538	738,041	18,557
Change in assets whose use is limited	(17,971,324)	-	-	-
Member distributions	970,687	(1,755,000)	721,444	(950,000)
Equity contributions	-	-	(642,747)	1,227,488
Net cash provided by (used in) investing activities	(32,542,003)	(1,740,462)	790,328	296,045
Net increase (decrease) in cash and cash equivalents	(26,114,204)	278,951	759,246	316,501
Cash and cash equivalents at beginning of year	36,764,691	423,825	36,005,445	107,324
Cash and cash equivalents at end of year	<u>\$10,650,487</u>	<u>\$ 702,776</u>	<u>\$36,764,691</u>	<u>\$ 423,825</u>

Aspen Valley Hospital District

STATEMENTS OF CASH FLOWS - CONTINUED

Year ended December 31,

	2009		2008	
	Aspen Valley Hospital	Component units	Aspen Valley Hospital	Component units
Reconciliation of cash and cash equivalents to the balance sheets				
Cash and cash equivalents	\$ 8,186,384	\$ 702,776	\$34,381,759	\$ 423,825
Assets whose use is limited	2,464,103	-	2,382,932	-
Total cash and cash equivalents	<u>\$10,650,487</u>	<u>\$ 702,776</u>	<u>\$36,764,691</u>	<u>\$ 423,825</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 3,924,162	\$1,169,722	\$ 2,550,986	\$ 949,643
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	4,481,049	339,482	4,110,049	220,966
Bad debt expense	2,046,383	-	2,938,033	-
Gain on reversal of unclaimed refunds payable	(664,458)	-	-	-
Change in assets and liabilities				
Patient accounts receivable	(2,751,540)	92,426	(1,993,751)	106,884
Contributions receivable	149,499	-	413,632	-
Other receivables	445,110	(47,505)	(316,193)	(9,259)
Inventories	(16,561)	20,580	(150,051)	25,528
Prepaid expenses	(480,797)	91,607	(218,542)	88,084
Other assets	(45,202)	(15,000)	(51,221)	2,061
Accounts payable	534,568	(25,336)	(804,828)	39,306
Accrued salaries, benefits and payroll taxes	198,173	22,375	(143,738)	-
Other accrued liabilities	(165,298)	438,685	(227,036)	(46,715)
Refunds payable	(190,944)	-	(90,309)	-
Unclaimed refunds payable	56,434	-	51,660	-
Due to/from Medicare	(639,737)	-	161,360	-
Net cash provided by operating activities	<u>\$ 6,880,841</u>	<u>\$2,087,036</u>	<u>\$ 6,230,051</u>	<u>\$1,376,498</u>

Supplemental schedule of noncash capital and financing activities

The District entered into capital lease obligations for equipment of \$89,277 and \$1,562,641 in 2009 and 2008, respectively.

Capital asset additions in accounts payable and other accrued liabilities were \$63,152 and \$188,127 in 2009 and 2008, respectively.

The District entered into a note payable for employee housing of \$605,600 in 2008.

The accompanying notes are an integral part of these statements.

Aspen Valley Hospital District

STATEMENTS OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS

Year ended December 31,

	<u>2009</u>	<u>2008</u>
ASSETS		
Investments	<u>\$ 10,045,588</u>	<u>\$ 7,418,510</u>
NET ASSETS - held for pension benefits	<u>\$ 10,045,588</u>	<u>\$ 7,418,510</u>

The accompanying notes are an integral part of these statements.

Aspen Valley Hospital District

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS FIDUCIARY FUNDS

Year ended December 31,

	<u>2009</u>	<u>2008</u>
Additions		
Contributions for employee benefits	\$ 1,675,000	\$ 1,148,242
Investment earnings (losses)	<u>1,793,661</u>	<u>(3,315,211)</u>
Net change	3,468,661	(2,166,969)
Deductions		
Benefits	833,257	387,728
Administrative expenses	<u>8,326</u>	<u>-</u>
Total deductions	<u>841,583</u>	<u>387,728</u>
Change in net assets	2,627,078	(2,554,697)
Net assets at beginning of the year	<u>7,418,510</u>	<u>9,973,207</u>
Net assets at end of the year	<u><u>\$ 10,045,588</u></u>	<u><u>\$ 7,418,510</u></u>

The accompanying notes are an integral part of these statements.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

Aspen Valley Hospital District (the District), a political subdivision of the State of Colorado, operates the Aspen Valley Hospital (the Hospital), a 25-bed acute care facility that is designated by Medicare as a Critical Access Hospital located in Aspen, Colorado; Whitcomb Terrace, an assisted living facility; Mountain Oaks and the Beaumont Lodge, both employee housing complexes; and has an 8% interest in Healthcare Management, LLC. The District is governed by a Board of Directors consisting of five members elected by the residents of the District. The District is not a component unit of another governmental entity.

Midvalley Ambulatory Surgery Center, LLC (ASC) has been organized as a Colorado limited liability company to acquire, own and operate an ambulatory surgery center located in Basalt, Colorado. The members of ASC include the District and Surgical Management, LLC (SM), a Colorado corporation. The equity interests are 51% and 49%, respectively. The operating agreement between the District and SM states that the District shall elect three persons as board members and SM shall elect two persons as board members. As the District has a 51% ownership interest in ASC and appoints a voting majority of ASC's board members, the District can impose its will on ASC. However, ASC does not provide services to the District. As a result, ASC is considered a component unit of the District and included in the financial statements of the District using discrete presentation.

Snowmass Clinic Associates, LLP (SMC) has been organized as a Colorado limited liability partnership to operate a medical clinic and triage facility located in Snowmass, Colorado. The partners of SMC include the District and Orthopaedic Associates, PC (OA), a Colorado professional corporation. The partnership interests are 80% and 20%, respectively. As the District has an 80% partnership interest in SMC, the District can impose its will on SMC. However, SMC does not provide services to the District. As a result, SMC is considered a component unit of the District and included in the financial statements of the District using discrete presentation.

Midvalley Imaging Center, LLC (MIC) has been organized as a Colorado limited liability company to operate one or more imaging centers in Basalt, Colorado, and the surrounding area. The members of MIC include the District and Midvalley Imaging Investors, LLC. The equity interests are 51% and 49%, respectively. As the District has a 51% ownership interest in MIC, the District can impose its will on MIC. However, MIC does not provide services to the District. As a result, MIC is considered a component unit of the District and included in the financial statements of the District using discrete presentation.

2. 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Proprietary fund accounting

The District's government-wide financial statements (balance sheets and statements of revenues, expenses and changes in net assets and statements of cash flows) are comprised of an enterprise fund and discretely presented component units that use proprietary fund reporting. The only other fund of the District is a fiduciary fund (employee retirement fund) that is excluded from the government-wide financial statements and is presented separately as fund financial statements. The District utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

4. Cash equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2009 and 2008, cash equivalents consisted primarily of money market accounts with banks.

5. Patient accounts receivable, net/net patient service revenue

Patient accounts receivable, net is recorded at list price with an allowance for contractual adjustments (which represent the difference between charges and the amount received or receivable from third-party payors) and the allowance for doubtful accounts deducted to arrive at net receivables. The allowance for doubtful accounts is provided for at various percentages of accounts receivable, with a corresponding entry to bad debt expense. Contractual adjustments have been estimated by using historical payment percentages as well as payor specific contractual agreements. When individual accounts are determined to be uncollectible, the accounts are written off. Net patient service revenue is recorded at list price with contractual adjustments, charity care and bad debt expense deducted to arrive at net patient service revenue.

6. Physician guarantee contracts

Physician guarantees receivable represents the estimated future benefit to be received over the contractual life of physician guarantee contracts. The current portion of this receivable is included in other receivables in the balance sheets. Physician guarantees payable represents the estimated remaining liability of the District over the contractual life of physician guarantee contracts. This payable is included in other accrued liabilities in the balance sheets. See Note E for additional information on physician guarantee contracts.

7. Inventories

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Investments and investment income

Investments in U.S. Treasury and agency obligations with a remaining maturity of one year or less at the time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost, which approximates fair value. All other investments are carried at fair value. Fair value is determined using quoted market prices. Investment income includes dividend and interest income, realized gains and losses on investments and the net change for the year in the fair value of investments carried at fair value.

9. Assets whose use is limited

Assets whose use is limited are assets held by trustees under the Bond Indenture Agreements and internally designated by the District's Board of Directors for capital acquisitions. The internally designated funds remain under the control of the District's Board of Directors, which may at its discretion later use the funds for other purposes.

10. Capital assets

The District's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using the following asset lives:

Land improvements	7-25 years
Building	5-40 years
Fixed equipment	5-20 years
Movable equipment	3-20 years
Employee housing	5-25 years

The District capitalizes interest costs as a component of construction in progress funded by borrowings based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. There was no net interest costs capitalized in 2009 and 2008.

The District has not acquired any general infrastructure assets.

11. Debt issuance costs

Debt issuance costs consist of costs incurred in connection with the issuance of debt obligations and are included in other assets in the balance sheets. These costs have been deferred and are being amortized over the life of the related debt using the effective interest method.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. Bond premium and loss on refunding

The bond premium is being amortized over the life of the related debt using the effective interest method. The unamortized bond premium is included as an addition to revenue bonds payable and is reflected as both current and long-term in the balance sheets. The loss on refunding is being amortized over the term of the related bonds using the straight-line method, which approximates the interest method. The unamortized loss on refunding is included as a reduction to revenue bonds payable and is reflected as both current and long-term in the balance sheets. The amortization of both the bond premium and the loss on refunding is recorded as a reduction and an addition to interest expense, respectively.

13. Net assets

Net assets of the District are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by any outstanding borrowings and related accounts 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 District, including amounts deposited with trustees as required by revenue bond indentures and reserved for minority interests. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt or restricted.

14. Operating revenues and expenses

The District's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services (net patient service revenue) and other revenues which include income from employee housing, cafeteria revenue and other miscellaneous revenue. Nonexchange revenues, including ad valorem taxes, grants, and contributions received for purposes other than capital asset acquisition, investment income, gain on investment in joint venture and gain (loss) on disposal of capital assets are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

15. Charity care

The District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Net patient service revenue is reported net of charity care. Charges excluded from revenue under the District's charity care policy were \$2,199,117 and \$2,624,014 for 2009 and 2008, respectively.

16. Ad valorem taxes

The District received approximately 5.7% of its sources of funds from ad valorem taxes in 2009 and 2008. These funds were used to support the operating and capital needs of the Hospital District. In November 2005, the voters in the District approved the Hospital District's mill levy for a five-year period through 2010.

Ad valorem taxes are assessed on January 1 of each year. The Hospital District recognizes the tax revenue in the period it is assessed.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

17. Grants and contributions

From time to time, the District receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

18. Income taxes

As a political subdivision of the State of Colorado, the District is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

19. Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation.

NOTE B - DEPOSITS AND INVESTMENTS

Deposits

The Colorado Public Deposit Protection Act requires financial institutions to collateralize any uninsured public deposits. Any excess of deposits over the FDIC limit that are not insured are covered by collateral pledged by the financial institution in accordance with the Colorado Public Deposit Protection Act.

At December 31, the District had bank balances as follows:

	<u>2009</u>	<u>2008</u>
FDIC insured	\$ 35,887,293	\$ 1,000,000
Collateralized by securities held by the pledging financial institution's trust department or agent in other than the District's name	<u>9,441,442</u>	<u>36,211,855</u>
Total	<u>\$ 45,328,735</u>	<u>\$ 37,211,855</u>
Carrying value on the balance sheets at December 31	<u>\$ 44,641,027</u>	<u>\$ 36,868,779</u>

The carrying value on the balance sheets at December 31, 2009 and 2008 includes assets whose use is limited of \$19,041,574 and \$1,070,250, respectively.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE B - DEPOSITS AND INVESTMENTS - Continued

Investments

The District may legally invest in direct obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies. It may also invest fiduciary funds in other investments. At December 31, 2009 and 2008, investments amounted to \$11,439,441 and \$11,220,862, respectively. All investments under bond agreements, with the exception of those included in deposits, were invested in direct obligations of the U.S. Government through pooled investments.

Due to the nature of the fiduciary assets, ratings are not available. All investments are reported at fair value and have maturities of less than one year.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	<u>2009</u>	<u>2008</u>
Carrying value		
Deposits	\$ 44,641,027	\$ 36,868,779
Investments	11,439,441	8,731,192
Cash on hand and change funds	<u>2,900</u>	<u>2,650</u>
	<u>\$ 56,083,368</u>	<u>\$ 45,602,621</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 8,186,384	\$ 34,381,759
Investments	17,415,969	1,419,420
Assets whose use is limited		
Internally designated for capital acquisitions	17,971,324	-
Held by trustee under bond agreement	2,464,103	2,382,932
Held by trustee under pension plan agreement (fiduciary assets)	<u>10,045,588</u>	<u>7,418,510</u>
	<u>\$ 56,083,368</u>	<u>\$ 45,602,621</u>

NOTE C - PATIENT ACCOUNTS RECEIVABLE, NET/NET PATIENT SERVICE REVENUE

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. These payment arrangements include:

Medicare – The District is licensed as a Critical Access Hospital. Under this reimbursement system, inpatient acute care and swing-bed services rendered to Medicare program beneficiaries are paid under cost reimbursement methodologies. Outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and cost reimbursement methodologies. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the District and audit thereof by the Medicare fiscal intermediary.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE C - PATIENT ACCOUNTS RECEIVABLE, NET/NET PATIENT SERVICE REVENUE - Continued

Medicaid – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services, certain outpatient services and defined capital costs related to Medicaid beneficiaries are paid based on a cost-reimbursement methodology. The District is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary.

Other – The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the District under these agreements is primarily discounts from established charges.

Net accounts receivable and net patient service revenue is computed as follows for the years ended December 31:

	<u>2009</u>	<u>2008</u>
Patient accounts receivable, gross	\$ 8,448,599	\$ 8,413,180
Allowance for doubtful accounts	(675,259)	(1,082,974)
Allowance for contractual adjustments	<u>(1,009,898)</u>	<u>(1,271,921)</u>
Patient accounts receivable, net	<u>\$ 6,763,442</u>	<u>\$ 6,058,285</u>
 Gross patient service revenue	 \$ 72,806,695	 \$ 71,327,726
Less		
Medicare contractals	4,918,293	4,647,072
Medicaid contractals	1,346,080	1,078,981
Other contractals and adjustments	6,453,465	6,559,683
Charity care	2,199,117	2,624,014
Bad debt expense	<u>2,046,383</u>	<u>2,938,033</u>
Net patient service revenue	<u>\$ 55,843,357</u>	<u>\$ 53,479,943</u>

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE D - CONCENTRATION OF CREDIT RISK

The District grants credit without collateral to its patients, most of which are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31 are as follows:

	<u>2009</u>	<u>2008</u>
Medicare	14%	17%
Medicaid	2	2
Blue Cross	13	11
Other third-party payors	65	63
Self-pay	<u>6</u>	<u>7</u>
	<u>100%</u>	<u>100%</u>

NOTE E - PHYSICIAN GUARANTEE CONTRACTS

The District has entered into income guarantee contracts for several physicians. The District, as the guarantor, has agreed to make payments to the physicians, the guaranteed party, per month if the gross cash collections generated by the physicians' new practice during the month do not equal or exceed a specific minimum amount stated in each physician's contract. A majority of the physician guarantee contracts have a guarantee period of 12 months and a forgiveness period of 24 months. There is one physician guarantee contract that has a guarantee period of 12 months, and a forgiveness period of 14 months. For those physicians under a guarantee contract with a forgiveness period, they are required, for a minimum of their commitment period, which consists of 24 to 36 months, to diligently and fully devote their efforts and time to the operation of their practice in the Colorado Roaring Fork Valley. In the event that these physicians fail to perform their obligations under their contract, they are to reimburse the District all sums advanced to them minus any amounts forgiven pursuant to the terms of their respective contracts. The District has signed promissory notes with the physicians. The maximum potential amount of future undiscounted payments the District could be required to make under the physician guarantee contracts totaled \$57,122 and \$233,336 at December 31, 2009 and 2008, respectively. The carrying amounts of the physician guarantee contracts are included in the balance sheets as follows:

	<u>2009</u>	<u>2008</u>
Other receivables	\$ 392,013	\$ 256,983
Physician guarantees receivable	<u>363,563</u>	<u>694,681</u>
	<u>\$ 755,576</u>	<u>\$ 951,664</u>
Other accrued liabilities	<u>\$ 57,122</u>	<u>\$ 193,707</u>

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE F - CAPITAL ASSETS

Capital assets activity for the years ended December 31, 2009 and 2008 is as follows:

	2009				
	Beginning balance	Additions	Deletions	Transfers	Ending balance
Land	\$ 267,057	\$ -	\$ -	\$ -	\$ 267,057
Land improvements	1,051,760	-	-	-	1,051,760
Building	18,888,202	215,280	-	(4,024,420)	15,079,062
Fixed equipment	2,716,027	7,229	-	4,024,420	6,747,676
Movable equipment	28,898,928	1,941,843	(238,193)	-	30,602,578
Employee housing	8,548,961	26,004	(3,944)	-	8,571,021
Construction in progress	3,165,725	623,732	-	-	3,789,457
Total cost	63,536,660	2,814,088	(242,137)	-	66,108,611
Less accumulated depreciation					
Land improvements	586,749	34,424	-	-	621,173
Building	7,235,830	587,633	-	(82,068)	7,741,395
Fixed equipment	2,563,703	351,562	-	82,068	2,997,333
Movable equipment	16,464,970	3,122,418	(231,853)	-	19,355,535
Employee housing	2,677,362	307,424	(3,944)	-	2,980,842
Total accumulated depreciation	29,528,614	4,403,461	(235,797)	-	33,696,278
Capital assets, net	<u>\$ 34,008,046</u>	<u>\$ (1,589,373)</u>	<u>\$ (6,340)</u>	<u>\$ -</u>	<u>\$ 32,412,333</u>

	2008				
	Beginning balance	Additions	Deletions	Transfers	Ending balance
Land	\$ 267,057	\$ -	\$ -	\$ -	\$ 267,057
Land improvements	658,338	-	-	393,422	1,051,760
Building	13,722,898	-	(677,362)	5,842,666	18,888,202
Fixed equipment	2,601,944	-	(19,175)	133,258	2,716,027
Movable equipment	26,766,246	1,951,135	(597,513)	779,060	28,898,928
Employee housing	7,802,812	746,149	-	-	8,548,961
Construction in progress	5,917,273	4,396,858	-	(7,148,406)	3,165,725
Total cost	57,736,568	7,094,142	(1,294,050)	-	63,536,660
Less accumulated depreciation					
Land improvements	566,376	15,455	-	4,918	586,749
Building	7,046,867	558,963	(463,432)	93,432	7,235,830
Fixed equipment	2,533,438	46,719	(18,675)	2,221	2,563,703
Movable equipment	13,954,667	3,156,759	(545,885)	(100,571)	16,464,970
Employee housing	2,393,685	283,677	-	-	2,677,362
Total accumulated depreciation	26,495,033	4,061,573	(1,027,992)	-	29,528,614
Capital assets, net	<u>\$ 31,241,535</u>	<u>\$ 3,032,569</u>	<u>\$ (266,058)</u>	<u>\$ -</u>	<u>\$ 34,008,046</u>

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE G - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts of, damage to and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, natural disasters, employee disability and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation, short-term disability and employee health care benefits. Settled claims have not exceeded any commercial insurance coverage in any of the three preceding years.

The District partially self-insures the cost of employee healthcare benefits as it purchases annual stop-loss insurance coverage for all claims in excess of \$125,000 and \$100,000 for the years ended December 31, 2009 and 2008, respectively, per individual participant and aggregate stop-loss at predetermined amounts annually. Other accrued liabilities on the balance sheet include an accrual for claims which have been incurred but not reported. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors.

The following represents changes in related employee healthcare benefit liabilities for the following two years:

	<u>2009</u>	<u>2008</u>
Unpaid claims at beginning of year	\$ 512,000	\$ 567,801
Total incurred claims and claim adjustment expenses	2,931,816	3,064,228
Total payments	<u>(2,940,816)</u>	<u>(3,120,029)</u>
Total unpaid claims and claim adjustment expenses at end of year	<u>\$ 503,000</u>	<u>\$ 512,000</u>

NOTE H - TAX, SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20 (TABOR), which has several limitations including revenue raising, spending abilities and other specific requirements of state and local governments.

The amendment excludes Enterprises from its provisions. Enterprises are defined as government-owned businesses authorized to issue revenue bonds and receive less than 10% of their annual revenue in grants from all state and local governments combined. The District is of the opinion that their operations qualify for this exclusion.

NOTE I - LONG-TERM DEBT

The District has various components of long-term debt as described below.

Hospital Variable Rate Revenue Bonds - Series 2003, interest is computed at the weekly interest rate as determined by Wachovia Bank N.A. and is payable each April 15 and October 15. The variable rate at December 31, 2009 and 2008 was 0.22% and 1.98%, respectively. Principal is due on demand but if not demanded, is payable in installments through October 15, 2033. The Bonds are special and limited revenue obligations of the District and are secured by net revenues. Additional security is provided by an irrevocable direct pay letter of credit.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE I - LONG-TERM DEBT - Continued

Pursuant to the issuance of the Series 2003 Bonds, a Reimbursement Agreement was signed between Vectra Bank Colorado, Zions First National Bank and the District. The District was in compliance with all covenants pertaining to this agreement at December 31, 2009 and 2008.

Hospital Refunding Bonds – Series 2007, due 2026, payable in increasing varying annual installments through October 15, 2026, bearing interest rates of 4.375% to 5%, payable semi-annually. The Series 2007 Bonds are issued and pursuant to and are secured by the Bond Resolution. The Bonds are limited obligations payable solely from the net revenues derived from operations of the District.

The District was in compliance with all covenants pertaining to the 2007 Bonds at December 31, 2009 and 2008.

Upon issuance and delivery of the Series 2007 Refunding Revenue Bonds, the District defeased its outstanding Series 2000 and 2001 bonds. Proceeds from the bonds were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the defeased bonds. This advance refunding transaction resulted in an extinguishment of debt since the District was legally released from its obligation on the Series 2000 and 2001 bonds at the time of defeasance. \$275,000 and \$410,000 of the Series 2000 and 2001, respectively, are outstanding as of December 31, 2009 with varying call dates through October of 2011.

The advance refunding of the Series 2000 and 2001 bonds resulted in an overall future economic benefit for the District. However, an accounting loss of \$991,240 on the extinguishment of the long-term debt was recorded in 2007. This loss on refunding is shown as a reduction of the outstanding long-term debt on the balance sheet and is being amortized using the straight-line method over the life of the Series 2000 bonds.

During 2008, the District entered into a note payable with principal and interest payable monthly and a final balloon payment due in 2013. The note is collateralized by property and has a variable interest of prime plus 2%. The variable rate at December 31, 2009 and 2008 was 2.21% and 2.59%, respectively.

The District has capitalized lease obligations at varying rates of imputed interest maturing between 2009 and 2014 that are collateralized by leased equipment.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE I - LONG-TERM DEBT - Continued

A schedule of changes in the District's long-term debt activity for 2009 and 2008 is as follows:

	2009					
	Beginning balance	Additions	Deletions	Ending balance	Amounts due within one year	Long-term portion
2003 revenue bonds payable	\$ 11,090,000	\$ -	\$ (125,000)	\$ 10,965,000	\$ 125,000	\$ 10,840,000
2007 revenue bonds payable	12,530,000	-	(455,000)	12,075,000	480,000	11,595,000
Note payable	605,554	-	(12,226)	593,328	14,237	579,091
Capital leases	2,234,110	89,277	(687,427)	1,635,960	626,796	1,009,164
	26,459,664	89,277	(1,279,653)	25,269,288	1,246,033	24,023,255
Unamortized premium on Series 2007 bonds	218,857	-	(18,736)	200,121	19,314	180,807
Unamortized loss on refunding 2000 and 2001 bonds	(890,281)	-	55,069	(835,212)	(55,069)	(780,143)
	<u>\$ 25,788,240</u>	<u>\$ 89,277</u>	<u>\$ (1,243,320)</u>	<u>\$ 24,634,197</u>	<u>\$ 1,210,278</u>	<u>\$ 23,423,919</u>
	2008					
	Beginning balance	Additions	Deletions	Ending balance	Amounts due within one year	Long-term portion
2003 revenue bonds payable	\$ 11,215,000	\$ -	\$ (125,000)	\$ 11,090,000	\$ 125,000	\$ 10,965,000
2007 revenue bonds payable	12,970,000	-	(440,000)	12,530,000	455,000	12,075,000
Note payable	-	605,554	-	605,554	13,509	592,045
Capital leases	1,477,588	1,562,641	(806,119)	2,234,110	653,602	1,580,508
	25,662,588	2,168,195	(1,371,119)	26,459,664	1,247,111	25,212,553
Unamortized premium on Series 2007 bonds	238,881	-	(20,024)	218,857	20,024	198,833
Unamortized loss on refunding 2000 and 2001 bonds	(945,350)	-	55,069	(890,281)	(55,069)	(835,212)
	<u>\$ 24,956,119</u>	<u>\$ 2,168,195</u>	<u>\$ (1,336,074)</u>	<u>\$ 25,788,240</u>	<u>\$ 1,212,066</u>	<u>\$ 24,576,174</u>

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE I - LONG-TERM DEBT - Continued

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

	Revenue bonds payable		Note payable		Capital leases	
	Principal	Interest	Principal	Interest	Principal	Interest
Year ending December 31						
2010	\$ 605,000	\$ 612,291	\$ 14,237	\$ 15,382	\$ 626,796	\$ 55,898
2011	625,000	589,217	14,237	15,013	561,037	33,300
2012	645,000	565,191	14,615	14,635	331,210	13,944
2013	670,000	540,217	550,239	13,090	111,965	1,191
2014	700,000	514,055	-	-	4,952	161
2015-2019	3,910,000	2,151,490	-	-	-	-
2020-2024	4,815,000	1,248,115	-	-	-	-
2025-2029	5,755,000	240,280	-	-	-	-
2030-2033	5,315,000	29,480	-	-	-	-
	<u>\$ 23,040,000</u>	<u>\$ 6,490,336</u>	<u>\$ 593,328</u>	<u>\$ 58,120</u>	<u>\$ 1,635,960</u>	<u>\$ 104,494</u>

The following is an analysis of the financial presentation of the capital leases:

	2009	2008
Equipment	\$ 3,833,817	\$ 4,049,490
Less accumulated amortization	<u>1,887,268</u>	<u>1,404,895</u>
	<u>\$ 1,946,549</u>	<u>\$ 2,644,595</u>

NOTE J - OPERATING LEASES

The District leases various facility spaces and equipment under operating leases expiring through 2014. Future five-year minimum lease payments under these noncancelable leases at December 31, 2009 are:

2010	\$ 697,838
2011	419,955
2012	258,933
2013	264,136
2014	<u>245,339</u>
Future minimum lease payments	<u>\$ 1,886,201</u>

Rental expense for all operating leases at December 31, 2009 and 2008 was \$1,107,400 and \$1,220,000, respectively.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE K - MEDICAL MALPRACTICE CLAIMS

The District pays fixed premiums for annual medical malpractice insurance coverage under a claims-made policy. Under such policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. The District is not aware of any unasserted claims, unreported incidents or claims outstanding which are expected to exceed malpractice insurance coverage limits as of December 31, 2009. Further, the District is subject to the provisions of the Colorado Government Immunity Act which provides a limitation on the liability of the District.

NOTE L - THE ASPEN VALLEY MEDICAL FOUNDATION, LIMITED

The Aspen Valley Medical Foundation, Limited (the Foundation) is an independent non-profit corporation incorporated in 1974. The Foundation's primary objective is the betterment of healthcare in the Roaring Fork Valley of Colorado. The Foundation's office is located in the Hospital. The District receives contributions from the Foundation for operations and capital-related items. For the years ended December 31, 2009 and 2008, the District received contributions of \$1,003,445 and \$121,280, respectively, from the Foundation and as of December 31, 2009 and 2008, pledge receivable amounts are \$1,123,055 and \$1,272,554, respectively.

NOTE M - PENSION PLANS

1. Defined contribution plan

During 2008, the District converted its 403(b) voluntary tax deferred annuity plan into a 457(b) plan. The District's employees who participated in the voluntary tax deferred annuity plan were allowed to roll over all or a portion of their retirement into the 457(b) plan. The rollover contributions are 100% vested. The District provides the 457(b) plan to substantially all employees of the District. The employees may contribute up to 100% of their salary to the 457(b) plan. The employees' total salary deferral is limited by the Internal Revenue Service (IRS) annually. Employees are always 100% vested in the contributions they choose to defer. If an employee is 50 years old or older and has met the annual IRS deferral limit, the employee may contribute a catch-up deferral that is also limited by the IRS annually. Contributions from employees to the 457(b) plan were \$1,426,248 and \$1,276,907 for the years ended December 31, 2009 and 2008, respectively. The District does not make contributions to the 457(b) plan.

During 2008, the District started a 401(a) governmental money purchase pension plan covering substantially all employees who are scheduled to work more than 20 hours per week or 5 months per year. Contribution expense is recorded for the amount of the District's required contributions, determined in accordance with the terms of the 401(a) plan. The 401(a) plan is administered by the District's governing body. The 401(a) plan provides retirement and death benefits to 401(a) plan members and their beneficiaries. Benefit and contribution provisions are contained in the 401(a) plan document and were established and can be amended by action of the District's governing body. The district's contribution for each eligible employee shall be calculated as of the contribution date and shall be equal to 50% of the employee's elective deferral contributions. The District's contributions, for purposes of all employees, excluding the Chief Executive Officer (CEO), shall not exceed 2 1/2% of their annual compensation; 5% for purposes of the CEO. Contribution expense to the 401(a) plan was \$305,956 and \$290,958 for the years ended December 31, 2009 and 2008, respectively.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE M - PENSION PLANS - Continued

2. Defined benefit plan

The District also administers a Cash Balance Retirement Plan (the Plan) providing retirement, disability and death benefits to full-time and half-time employees and their beneficiaries. This Plan is a single-employer defined benefit plan wherein a separate cash balance account is established for each employee upon becoming a member of the Plan.

Funding policy

An employee's benefit under the Plan, subject to certain limitations, is based on the amounts contributed to the employee's separate account and an annual minimum guaranteed investment rate of return. All investment risks of the Plan are borne by the District. The District makes annual contributions equal to 7.5% of earned salaries for employees who have earned 1,000 qualifying hours during the Plan year. Employees vest in District contributions on a graded scale after the employee is credited with a second year of service. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. The contribution requirements of the Plan members and the District are established and may be amended by the District. Plan participants are not permitted to contribute to the Plan.

Annual pension cost and net pension asset

The District's annual pension cost and net pension asset to the Plan for the years ended December 31, 2009 and 2008 was as follows:

	<u>2009</u>	<u>2008</u>
Annual required contribution	\$ 1,666,196	\$ 1,043,735
Interest on net pension obligation	(33,833)	(29,069)
Adjustment to annual required contribution	<u>61,135</u>	<u>35,086</u>
Annual pension cost	1,693,498	1,049,752
Contributions made	<u>(1,675,000)</u>	<u>(1,148,692)</u>
(Increase) decrease in net pension asset	18,498	(98,940)
Net pension asset at beginning of year	<u>469,000</u>	<u>370,060</u>
Net pension asset at end of year	<u>\$ 450,502</u>	<u>\$ 469,000</u>

The annual required contribution for the years ended December 31, 2009 and 2008 was determined as part of the January 1, 2009 and 2008 actuarial valuation using the unit credit cost method, respectively. The actuarial assumptions for the years ended December 31 are as follows:

	<u>2009</u>	<u>2008</u>
Long-term investment rate of return (net of administrative expenses)	7.50%	7.50%
Projected salary increases after ten years	5.50%	5.50%
Inflation component per year	3.00%	3.00%

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2009 and 2008

NOTE M - PENSION PLANS - Continued

Annual pension cost and net pension asset - continued

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over future years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at December 31, 2009 and 2008 is ten years.

Three-year trend information

<u>Year ended</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>New pension asset</u>
2007	\$ 506,862	97%	\$ 370,060
2008	\$ 1,049,752	109%	\$ 469,000
2009	\$ 1,693,498	99%	\$ 450,502

The Plan does not issue stand-alone financial statements and is not included in the report of any other public employee retirement system or another entity.

NOTE N - CONTINGENCIES

In the normal course of business, the District is, from time to time, subject to allegations that may or may not result in litigation. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. The District did not record any expected losses for the years ended December 31, 2009 and 2008. Events could occur that would cause the estimate of ultimate loss to differ in the near term.

NOTE O - SUBSEQUENT EVENT

During February 2010 the District signed agreements for pre-construction services related to Phase II of the Master Facilities Plan. The commitment associated with these agreements totals \$2,025,000 and is expected to be paid during 2010 upon completion of the agreed upon services.

SUPPLEMENTARY INFORMATION

Aspen Valley Hospital District

SCHEDULE OF FUNDING PROGRESS - CASH BALANCE RETIREMENT PLAN

Years ended December 31,

Actuarial valuation date	Actuarial value of assets (a)	Actuarial Accrued Liability (AAL) - Entry age (b)	Unfunded AAL (UAAL) (a-b)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (a-b/c)
6/1/01	\$ 5,311,501	\$ 5,159,401	\$ 152,100	103%	\$ 13,171,042	1%
6/1/02	\$ 5,505,440	\$ 6,101,743	\$ (596,303)	90%	\$ 14,400,476	-4%
6/1/03	\$ 5,907,744	\$ 6,908,500	\$ (1,000,756)	86%	\$ 16,037,942	-6%
6/1/04	\$ 7,310,833	\$ 8,040,139	\$ (729,306)	91%	\$ 15,046,364	-5%
6/1/05	\$ 7,778,060	\$ 8,439,829	\$ (661,769)	92%	\$ 12,717,916	-5%
6/1/06	\$ 8,834,727	\$ 9,692,585	\$ (857,858)	91%	\$ 12,777,017	-7%
6/1/07	\$ 10,198,381	\$ 10,220,086	\$ (21,705)	100%	\$ 14,584,176	0%
1/1/08	\$ 9,990,736	\$ 10,615,471	\$ (624,735)	94%	\$ 16,039,223	-4%
1/1/09	\$ 7,418,510	\$ 11,844,382	\$ (4,425,872)	63%	\$ 17,094,569	-26%

Aspen Valley Hospital District

SCHEDULE OF EMPLOYER CONTRIBUTIONS - CASH BALANCE RETIREMENT PLAN

Years ended December 31,

<u>Fiscal year</u>	<u>Annual required contribution (ARC)</u>	<u>Percentage of ARC contributed</u>
2001	\$ 703,886	100%
2002	\$ 851,826	100%
2003	\$ 999,216	100%
2004	\$ 914,386	105%
2005	\$ 778,430	96%
2006	\$ 887,556	109%
2007	\$ 492,369	100%
2008	\$1,043,735	110%
2009	\$1,666,196	101%

Aspen Valley Hospital District

STATEMENT OF BUDGETED AND ACTUAL REVENUES AND EXPENSES

Year ended December 31, 2009

	Budgeted amount <u>Original</u>	<u>Actual</u>	Favorable (unfavorable) variance
Operating revenues			
Net patient service revenue	\$ 52,615,920	\$ 55,843,357	\$ 3,227,437
Other revenues	<u>2,085,112</u>	<u>2,220,991</u>	<u>135,879</u>
Total operating revenues	54,701,032	58,064,348	3,363,316
Operating expenses	<u>55,367,688</u>	<u>54,140,186</u>	<u>1,227,502</u>
Operating income	(666,656)	3,924,162	4,590,818
Nonoperating revenues (expenses)			
Ad valorem taxes	3,517,093	3,517,092	(1)
Investment income	750,000	869,059	119,059
Interest expense	(1,350,445)	(992,601)	357,844
Noncapital contributions	37,698	893,879	856,181
Gain on investment in joint venture	450,008	43,009	(406,999)
Gain (loss) on disposal of capital assets	<u>-</u>	<u>12,944</u>	<u>12,944</u>
Total nonoperating revenues (expenses)	<u>3,404,354</u>	<u>4,343,382</u>	<u>939,028</u>
Income before capital contributions, member distributions, net, and equity contributions	2,737,698	8,267,544	5,529,846
Capital contributions	662,302	182,910	(479,392)
Member distributions	-	895,050	895,050
Equity contribution	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	<u><u>\$ 3,400,000</u></u>	<u><u>\$ 9,345,504</u></u>	<u><u>\$ 5,945,504</u></u>

Notes to Schedule

Annual budgets are adopted as required by Colorado Statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with generally accepted accounting principles.

Budgets are adopted by resolution in total. There were no supplemental budgets adopted during 2009.

Component units operating results are included in the budgeted amount original column above, but are not reflected in the actual column above. The decrease in net assets for the component units was \$562,978 in 2009.

Aspen Valley Hospital District

COMBINING BALANCE SHEET - COMPONENT UNITS

December 31, 2009

	ASSETS			
	Midvalley Ambulatory Surgery Center, LLC	Snowmass Clinic Associates, LLP	Midvalley Imaging Center, LLC	Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 158,531	\$ 465,890	\$ 78,355	\$ 702,776
Patient accounts receivable, net	453,412	31,323	133,965	618,700
Other receivables	-	59,963	5,000	64,963
Inventories	100,330	21,114	-	121,444
Prepaid expenses	-	78,866	-	78,866
Total current assets	712,273	657,156	217,320	1,586,749
CAPITAL ASSETS, NET	215,322	147,614	871,426	1,234,362
OTHER ASSETS (NET)	-	127,395	-	127,395
Total assets	<u>\$ 927,595</u>	<u>\$ 932,165</u>	<u>\$ 1,088,746</u>	<u>\$ 2,948,506</u>

LIABILITIES AND UNRESTRICTED NET ASSETS

CURRENT LIABILITIES				
Accounts payable	\$ 50,617	\$ -	\$ 5,969	\$ 56,586
Accrued salaries, benefits and payroll taxes	-	22,375	-	22,375
Other accrued liabilities	59,061	517,542	-	576,603
Total current liabilities	109,678	539,917	5,969	655,564

CONTINGENCIES AND COMMITMENTS

NET ASSETS				
Restricted				
Reserved for minority interests	400,779	78,450	540,035	1,019,264
Unrestricted	417,138	313,798	542,742	1,273,678
Total net assets	817,917	392,248	1,082,777	2,292,942
Total liabilities and net assets	<u>\$ 927,595</u>	<u>\$ 932,165</u>	<u>\$ 1,088,746</u>	<u>\$ 2,948,506</u>

Aspen Valley Hospital District

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - COMPONENT UNITS

Year ended December 31, 2009

	Midvalley Ambulatory Surgery Center, LLC	Snowmass Clinic Associates, LLP	Midvalley Imaging Center, LLC	Total
Operating revenues				
Net patient service revenue	\$ 3,051,268	\$ 665,815	\$ 733,033	\$ 4,450,116
Other revenues	-	13,060	-	13,060
	<hr/>	<hr/>	<hr/>	<hr/>
Total operating revenues	3,051,268	678,875	733,033	4,463,176
Operating expenses				
Salaries and wages	488,363	356,462	90,493	935,318
Supplies and other	1,288,700	447,664	282,290	2,018,654
Depreciation and amortization	84,398	82,404	172,680	339,482
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Total operating expenses	1,861,461	886,530	545,463	3,293,454
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Operating income (loss)	1,189,807	(207,655)	187,570	1,169,722
Nonoperating revenues (expenses)				
Investment income	10,424	1,542	2,572	14,538
	<hr/>	<hr/>	<hr/>	<hr/>
Income (loss) before member distributions and equity contribution	1,200,231	(206,113)	190,142	1,184,260
Member distributions	(1,320,000)	-	(435,000)	(1,755,000)
Equity contributions	-	-	7,762	7,762
	<hr/>	<hr/>	<hr/>	<hr/>
Change in net assets	(119,769)	(206,113)	(237,096)	(562,978)
Net assets at beginning of year	937,686	598,361	1,319,873	2,855,920
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets at end of year	<u>\$ 817,917</u>	<u>\$ 392,248</u>	<u>\$ 1,082,777</u>	<u>\$ 2,292,942</u>

Aspen Valley Hospital District

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS

Year ended December 31, 2009

	Midvalley Ambulatory Surgery Center, LLC	Snowmass Clinic Associates, LLP	Midvalley Imaging Center, LLC	Total
Cash flows from operating activities				
Cash received from patients and third-party payors	\$ 3,108,733	\$ 658,331	\$ 775,478	\$ 4,542,542
Cash paid to others	-	(49,445)	-	(49,445)
Cash received from (paid to) suppliers	(1,273,185)	60,903	(280,836)	(1,493,118)
Cash paid to employees	(488,363)	(334,087)	(90,493)	(912,943)
Net cash provided by operating activities	1,347,185	335,702	404,149	2,087,036
Cash flows from capital and related financing activities				
Purchases of capital assets	(67,623)	-	-	(67,623)
Cash flows from investing activities				
Investment income	10,424	1,542	2,572	14,538
Member distributions	(1,320,000)	-	(435,000)	(1,755,000)
Net cash provided by (used in) investing activities	(1,309,576)	1,542	(432,428)	(1,740,462)
Net increase (decrease) in cash and cash equivalents	(30,014)	337,244	(28,279)	278,951
Cash and cash equivalents at beginning of year	188,545	128,646	106,634	423,825
Cash and cash equivalents at end of year	<u>\$ 158,531</u>	<u>\$ 465,890</u>	<u>\$ 78,355</u>	<u>\$ 702,776</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 1,189,807	\$ (207,655)	\$ 187,570	\$ 1,169,722
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	84,398	82,404	172,680	339,482
Change in assets and liabilities				
Patient accounts receivable	57,465	(7,484)	42,445	92,426
Other receivables	-	(47,505)	-	(47,505)
Inventories	13,848	6,732	-	20,580
Prepaid expenses	-	91,607	-	91,607
Other assets	-	(15,000)	-	(15,000)
Accounts payable	1,042	(27,832)	1,454	(25,336)
Accrued salaries, benefits and payroll taxes	-	22,375	-	22,375
Other accrued liabilities	625	438,060	-	438,685
Net cash provided by operating activities	<u>\$ 1,347,185</u>	<u>\$ 335,702</u>	<u>\$ 404,149</u>	<u>\$ 2,087,036</u>



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