Aspen Valley Hospital District

Independent Accountants' Report and Financial Statements

December 31, 2011 and 2010

BKD LLP
CPAs & Advisors

Aspen Valley Hospital District

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Contents

BKD LLP
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1551 N. Waterfront Parkway, Suite 300
Wichita, KS 67206-6601
316.265.2811 Fax 316.265.9405 www.bkd.com

Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Aspen Valley Hospital District
Aspen, Colorado

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units and the fiduciary fund of the Aspen Valley Hospital District as of and for the years December 31, 2011 and 2010, 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 an opinion 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. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 fiduciary fund of the Aspen Valley Hospital District as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The statement of budgeted and actual revenues and expenses and combining statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

March 23, 2012

Aspen Valley Hospital District
Management's Discussion and Analysis
Years Ended December 31, 2011 and 2010

Introduction

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 District (the District) for the calendar years ended on December 31, 2011 and 2010.

The financial statements are presented in two columns – one for the District and one for Component Units. The Component Units column represents the financial statements for joint ventures that are owned in part by the District. Please see Note 1 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 District'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 Highlights

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

1. **Balance Sheets:** provides information about the District's assets and liabilities and reflect the District's financial position as of December 31, 2011 and 2010.
2. **Statements of Revenues, Expenses and Changes in Net Assets:** reports the cumulative activity of providing health care services and the expenses related to such activity for the years ended December 31, 2011 and 2010.
3. **Statements of Cash Flows:** outlines the cash inflows and outflows related to the activity of providing health care services for the years ended December 31, 2011 and 2010.
4. **Notes to the Financial Statements:** provides 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.

Balance Sheets

The District's total assets at the end of 2011 were $161,018,229 compared to $148,645,528 for 2010 and $91,964,540 at the end of 2009. The $12,372,701 increase from 2010 total assets is attributable to the increase in cash and cash equivalents, short-term investments, inventories and capital assets; and decreases in patient accounts receivable, contributions and other receivables, prepaid expenses, restricted assets and other assets. The increase of $56,680,988 from 2009 is attributable to the Series 2010 Bond issuance in the amount of $50,000,000, increase in cash and cash equivalents, patient accounts receivable, contributions and other receivables, prepaid expenses, other assets; and decreases in capital assets.

At December 31, 2011, assets consisted primarily of cash and cash equivalents of $13,656,282; net patient accounts receivable of $7,094,685; short-term investments of $23,450,333; assets internally designated for capital acquisitions of $18,758,172; bond funds restricted for capital acquisitions of $27,706,704; assets held by trustee for debt service of $2,441,273 and net capital assets of $62,258,249.

At December 31, 2010, assets consisted primarily of cash and cash equivalents of $11,188,411; net patient accounts receivable of $7,451,593; short-term investments of $17,765,196; assets internally designated for capital acquisitions of $18,575,596; bond funds restricted for capital acquisitions of $50,109,327; assets held by trustee for debt service of $2,440,279 and net capital assets of $34,200,002.

Comparable asset balances at December 31, 2009, consisted primarily of cash and cash equivalents of $8,186,384; net patient accounts receivable of $6,763,442; short-term investments of $17,415,969; assets internally designated for capital acquisitions of $18,123,689; assets held by trustee for debt service of $2,464,103 and net capital assets of $32,412,333. The $50,109,327 increase in bond funds restricted for capital acquisitions was due to two General Obligation Bond Issuances, Series 2010A Tax-Exempt Bonds in the amount of $12,045,000 and Series 2010B Taxable Direct Pay Build America Bonds in the amount of $37,955,000. The bonds issued constitute general obligations of the District. All the taxable property located in the District is subject to the levy of an ad valorem tax to pay the principal, interest and premium on the bonds without limitation as to the rate and in an amount sufficient to pay the bonds when due. The proceeds of the bonds are being used to finance the acquisition, improvement, construction, equipping and furnishing of certain improvements to the District's facility, also referred to as the Master Facilities Plan.

The continued stabilization in net patient accounts receivable and the increase in cash and cash equivalents during 2011, 2010 and 2009 resulted from the reliable revenue cycle management of Computer Sciences Corporation (formerly First Consulting Group) and Firstsource Solutions (formerly MedAssist), two outside billing specialists. An emphasis on timely communication with third-party payers and effective claim management were instrumental for growth in cash and cash equivalents, investments and assets internally designated for capital acquisitions for 2011, 2010 and 2009.

The District's total liabilities at December 31, 2011, were $82,606,981; noting accounts payable of $2,010,181; construction payable of $4,593,597; accrued liabilities of $2,828,643; patient and insurance refunds payable of $131,576; unclaimed refunds payable of $226,664; estimated amounts due to third-party payers of $808,241; long-term bonds payable of $67,189,738; long-term capital lease obligations of $1,171,209; long-term notes payable of $546,281 and current maturities of long-term debt of $3,100,851.

The District's total liabilities at December 31, 2010, were $79,677,018; noting accounts payable of $1,836,274; construction payable of $332,675; accrued liabilities of $2,653,904; patient and insurance refunds payable of $96,351; unclaimed refunds payable of $317,732; estimated amounts due to third-party payers of $520,000; long-term bonds payable of $69,759,858 and current maturities of long-term debt of $3,150,013; long-term capital lease obligations of $448,096 and long-term notes payable of $562,115.

At December 31, 2009, total liabilities were $29,815,197 consisting primarily of 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 $1,009,746 and long-term notes payable of $579,091.

The $2,929,963 increase in total liabilities for 2011 was attributed mainly to the increase in construction payable resulting from the Master Facilities Plan construction that began in December 2010. This payable includes outstanding construction invoices and related construction retainage. The District also purchased a new state of the art CT Scan system which offers enhanced visual clarity and up to 50%

radiation reduction to patients under a new capital lease obligation. As a result of this purchase, the long-term capital lease obligations increased by $723,113.

The $49,861,821 increase in total liabilities for 2010 was attributed to the issuance of the Series 2010A and 2010B General Obligation Bonds on December 15, 2010, in the amount of $50,000,000 in the aggregate. The proceeds of the bond funds are being utilized to modernize and expand the District's facilities to meet contemporary standards for treatment and technology, enhance the quality, safety and privacy of patient care, and to reconfigure the District's facilities to meet the present and future health care needs of the community. On July 12, 2010, the city of Aspen approved the District's Master Facility Plan Phase II Expansion and Renovation Project. The project's construction began on December 1, 2010, and it is estimated to last for approximately 28 months. The estimated cost of the project is approximately $76,400,000, with a portion of the project to be funded with proceeds of the above bonds and the remainder with the District's funds and/or private contributions. The project is expected to expand the facility by 62,200 square feet, while renovating another 26,330 square feet, to create an additional 15,500 square feet in employee housing units to provide an additional 18 units and to create a new three-level parking garage providing 235 parking spaces. Increases were also noted in accrued liabilities, refunds payable, construction payable and estimated amounts due to third-party payers. Decreases were noted in unclaimed refunds payable, capital lease obligations and notes payable.

The $1,843,112 decrease in total liabilities for 2009 was attributed to the reduction 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. Decreases were also noted in long-term debt, accrued liabilities, estimated amounts due to third-party payers and patient and insurance refunds payable. There was an increase in accounts payable attributed to a single invoice received after the year-end accounts payable process.

The District reported unrestricted net assets of $57,440,716 in 2011, $55,209,798 in 2010 and $50,784,050 in 2009. The increase in total net assets of $9,442,738 from 2010, $6,819,167 from 2009 and $9,345,504 from 2008 represent excess of revenues over expenses and other changes reported by the District for each year. Net assets represent the cumulative changes in gains and losses since the inception of the entity.

Statements of Revenues, Expenses and Changes in Net Assets

Patient Service Revenues

The District classifies revenues as operating and non-operating 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 $397,531 or 0.7% in 2011 compared to $1,469,833 or 2.6% in 2010. Net patient service revenue for 2011 in total was $57,710,721 compared to $57,313,190 in 2010 and $55,843,357 in 2009. The slower rate of growth in net patient service revenue for both 2011 and 2010 is directly attributable to the downturn in economic conditions experienced around the country.

The District's outpatient service revenues continue to exceed the inpatient service revenues, with 74% of the District's 2011 patient service revenue generated by outpatient services, compared to 70% in 2010 and 2009. The departments contributing most to outpatient revenues during these years were Outpatient Surgeries, Emergency Room, Laboratory and Diagnostic Imaging.

The payer mix for the District has remained consistent with prior years' experience. The largest portion of the District's patient service revenues were derived from commercial health plans, 63% during 2011, 66% during 2010 and 67% in 2009. In addition, the District derived approximately 24.5% of gross revenues from Medicare in 2011, up 2% from 2010 and 2009. Payments for services rendered to patients under these programs are less than billed charges; therefore, the District estimates a provision for contractual adjustments to reduce the total charges to estimated receipts, 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 District not directly related to patient care. In 2011, the District classified $360,818 of fees received from the Aspen Ambulance District for management of its operations to other operating revenues. Comparably, fees received by the District from the Aspen Ambulance District in 2010 were $340,362. The $75,305 decrease in other operating revenues from 2010 is attributable to a reduction in rents in the assisted living facility as mitigation on the disruption created by the District's construction, and a reduction in rental income from employee housing. In 2010, other operating revenues had a decrease of $124,663. The decrease for 2010 was attributable to a restructure in the contract related to the District's relationship with the Aspen Ambulance District and a reduction in rental income from employee housing.

Nonoperating revenues and expenses are comprised of ad valorem taxes, investment income, interest expense, community assistance programs, noncapital contributions, gain or loss on investment in joint venture and gain or loss on disposal of capital assets. Nonoperating revenues and expenses for 2011 were $5,915,137 compared to $3,425,226 in 2010 and $4,257,617 for 2009. The $2,489,911 increase from 2010 in nonoperating revenues and expenses was attributable to an increase in ad valorem taxes of $3,227,915 to cover the debt service payments due during the year related to the Series 2010 General Obligation Bonds, a decrease of $523,831 investment income, a decrease in interest expense of $151,886, an increase in community assistance programs of $111,102, an increase in noncapital contributions of $35,102 and an increase in the loss on disposal of capital assets of $290,059. The District has an agreement with Mountain Family Health Centers to provide them with financial support to cover their cost of providing health care services to the indigent population residing between Aspen and El Jebel. The expenses related to this program are reflected under Community Assistance Programs. The $832,391 decrease in nonoperating revenues for 2010 was primarily due to an $838,969 decrease in noncapital contributions, $9,192 increase in investment income, $30,510 decrease in interest expense, $9,064 increase in gain on investment in joint venture and $21,066 increase in community assistance programs.

Expenses

In 2011, operating expenses decreased $428,569 from the 2010 reported data. The factors giving rise to this decrease in expenses were an increase of $241,242 in salaries and wages, a decrease of $591,525 in contract labor, a decrease of $380,861 from supplies and other and an increase of $302,575 from depreciation and amortization. Within the supplies and other decrease, there was an increase in patient care supplies of $226,651, maintenance and utilities had an increase of $118,953, outsourcing had an increase of $208,143, legal consulting and audit had an increase of $127,425, employee benefits decreased by $831,148 and miscellaneous expenses decreased by $230,885. In 2011, the District's management continued to monitor the growth in full-time equivalents and operational expenses resulting in lower expenses than budgeted. Another significant factor in the reduction of the operating expenses was the performance of the self-funded health plan. Operating expenses increased $3,445,291 in 2010. This increase was attributed mainly to a salaries and wages increase of $1,086,209, an increase in contract labor of $233,788, an increase in supplies and other of $2,103,584 and an increase of $21,710 in depreciation and amortization. Operating expenses increased $1,161,915 in 2009. Instrumental to this increase was an increase in salaries and wages of $809,783, a decrease in contract labor of $1,152,126, an increase in supplies and other of $1,133,258 and an increase of $371,000 in depreciation and amortization. In 2010, Snowmass Clinic Associates, LLP reported in previous years within the Component Units, became a department of the District, thus, affecting the expenses and full-time equivalents for the year. In addition, the District began participation in the Colorado Medicaid Provider Fee Program, which is part of the Colorado Health Care Affordability Act signed in April 2009. As a participant of this program, the District was charged with provider fees totaling $675,559 (which are offset by a reduction on Medicaid contractual adjustments of $730,921). Such provider fees are being reported within the supplies and other category. In 2009, a contingency plan of operations was instituted to hold full-time equivalents and operations expense growth to lower than budgeted numbers, in addition to having the previous agency and transitional employees that were hired in 2008 as full-time employees of the District, giving rise to the significant decrease in contract labor and increase in salaries and wages.

Provision for Uncollectible Accounts

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

The primary collection risks are related to patients' payment portions not covered by their primary insurance (deductibles and co-payments). The District estimated the allowance for uncollectible accounts based primarily upon the age of accounts receivable and the effectiveness of the District's third-party payer collection efforts.

Significant changes in payer mix, District operations, economic conditions, and trends in federal and state governmental health care coverage affect the District's collection of accounts receivable, cash flows and results of operations.

In 2011, the District reported provision for uncollectible accounts of $2,580,948, compared to $2,272,739 for 2010 and $2,046,383 for 2009. The increase in the provision for uncollectible accounts for 2011 as compared to 2010 is related to an increase in international patient accounts with insufficient insurance coverage during our ski season. Although the District expects to collect a large amount of these write-offs, the more conservative approach would dictate that an increase in this estimate would be appropriate. The increase in the provision for uncollectible accounts in 2010 compared to 2009 is directly related to an increase in patient accounts receivable of $1,239,305. The District's estimate for the allowance for uncollectible accounts is based on Computer Sciences Corporation (formerly First Consulting Group) and Firstsource Solutions' (formerly MedAssist) analysis, recommendations for modification, and implementation of improved billing and collection processes. The provision for uncollectible accounts is included in net patient service revenue.

Accounts written-off as charity and indigent care are included in net patient service revenue. Charity and indigent care write-offs for 2011 were $3,175,573 or 4.1% of gross patient service revenue, compared to $2,420,822 or 3.2% of gross patient service revenue for 2010, and $2,199,117 or 3.0% of gross patient service revenue for 2009.

Statements of Cash Flows

Liquidity and Capital Resources

The District's cash flows from operations and ad valorem taxes provide the primary sources of funding for the District's ongoing cash needs.

The following is a summary of cash flows for the calendar years ended on December 31, 2011, 2010 and 2009:

Cash Flows	2011	2010	2009
Operating activities	$ 9,772,016	$ 4,848,747	$ 6,966,606
Noncapital financing activities	3,685,436	3,465,172	4,325,206
Capital and related financing activities	(28,445,984)	43,192,758	(4,864,013)
Investing activities	(4,945,226)	1,580,853	(32,542,003)
Net increase (decrease) in cash	$ (19,933,758)	$ 53,087,530	$ (26,114,204)

In 2011, the District's cash flow from operations increased $4,923,269 as compared to 2010 from increased receipts from patients and third-party payers of $928,111, decreased payments to suppliers of $2,582,960 (an increase in cash), increased payments to employees of $273,039 (a decrease in cash) and increased cash receipts from others of $1,685,237. During 2010, the District's cash flow from operations decreased $2,117,859 as compared to 2009 from increased payments to suppliers of $3,279,651 (a reduction in cash), increased receipts from patients and third-party payers of $3,672,421, increased payments to employees of $1,103,259 and a decrease of cash receipts from others of $1,407,370 (both are reductions in cash). The District's cash flow from operations increased $736,555 in 2009 from a mixture of decreased receipts from patients and third-party payers of $847,441 (a reduction in cash), an increase in receipts from others of $760,631, a decrease in payments to suppliers of $1,291,220 and an increase in payments to employees of $467,855 (a reduction in cash).

Noncapital financing reflects an increase in cash flow during 2011 of $220,264 resulting from an increase in ad valorem tax receipts of $32,786, a decrease in community assistance program payments of $5,269 (an increase in cash) and an increase in noncapital contributions receipts of $192,747. In 2010, noncapital financing reflects a reduction in cash flow from 2009 of $860,034 from noncapital contributions. During 2011 and 2010, the District refrained from requesting grants from Aspen Valley Medical Foundation in order to allow the Foundation to focus its efforts on the Master Facilities Plan Fund Drive. The $799,507 increase in noncapital financing for 2009 was attributed to additional ad valorem taxes of $93,283, additional community assistance programs of $85,765 (a reduction in cash) and additional noncapital contributions of $791,989. During 2009, noncapital contributions were granted to the District by the Foundation for the start-up operational costs related to Quality Health Network's (QHN) medical health record product.

In 2011, cash flow activities used in capital and related financing activities decreased by $71,638,742. The main factor driving the significant decrease was the use of the Series 2010 General Obligation Bonds proceeds to finance the Master Facilities Plan Expansion, which broke ground in December 2010. In addition, the District collected additional ad valorem tax receipts of $3,250,759 to cover the 2011 debt service requirement on the Series 2010 General Obligation Bonds. During 2010, cash flow activities used in capital and related financing increased by $48,056,771. The main driver in this area was the issuance of the Series 2010 Bonds dated December 15, 2010. In addition, the District increased its capital assets spending by $2,396,369 as compared to 2009. Capital and related financing decreased in 2009 by $4,922,819, primarily due to decreased purchases of capital assets.

In 2011, investing activities reflected a decrease in cash flow of $6,526,079 as compared to 2010 from increased purchases of investments of $5,093,522, decreased investment income of $528,722, decrease in member distributions of $590,036 and a decrease in equity transfers of $313,799 (all reductions in cash). In 2011, the District purchased investments in addition to holding on to investments purchased in previous years and also experienced a significant drop in interest income as interest rates lowered countrywide. Investing activities reflected the District's smallest inflow of cash in 2010. The District's purchases of investments decreased by $33,322,497 as the District continued to hold the investments purchased during 2009. Such investments generated additional interest income of $372,511 as compared to 2009. During 2010, the District increased its 80% ownership in Snowmass Clinic Associates, LLP by acquiring the remaining 20% ownership from Orthopaedic Associates, PC. As a result, the investing activities reflect an increase in cash flows of $313,799 representing the equity transfer resulting from this transaction. Investing activities posted a $33,332,331 decrease in cash flow over 2008 due to increased purchases of investments totaling $34,061,463 (decrease in cash), a decrease in investment income of $162,858 and an increase in member distributions of $258,468.

Outstanding Debt Securities

The District did not issue additional debt in 2011. At the November 2, 2010, election, the electors of the District approved the issuance of general obligation bonds to be held by the District in an amount not to exceed $50,000,000, with a total repayment cost not to exceed $86,850,000 and a maximum annual repayment cost not to exceed $4,363,000. The electors also approved increased ad valorem property taxes to pay debt service on such bonds, provided that the annual amount of such taxes not exceed $4,363,000. As a result of the favorable election, on December 15, 2010, the District issued two General Obligation Bonds: Series 2010A Tax-Exempt General Obligation Bonds in the amount of $12,045,000 and Series 2010B Taxable General Obligation Direct Pay Build America Bonds in the amount of $37,955,000. The bonds constitute general obligations of the District. As approved in the election, all of the taxable property located in the District is subject to the levy of the ad valorem tax to pay the principal and interest on the bonds, without limitation as to rate and in an amount sufficient to pay the bonds when due. The bonds were issued in order to finance the modernization and expansion of the District's facility to meet contemporary standards for treatment and technology, enhancing the quality, safety and privacy of patient care and rightsizing and reconfiguring of the facility to meet the present and future health care needs of the community. The District's Master Facility Plan Phase II Expansion and Renovation Project was approved by the city of Aspen on July 12, 2010, and construction began during the month of December 2010.

The District 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.

On October 15, 2003, the District 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 District signed a Reimbursement Agreement, which contained covenants that were met by the District during the calendar years 2011, 2010 and 2009.

Budgetary Highlights

The District is responsible for funding expenses from cash generated through its operations and from the ad valorem taxes received during the calendar year. The District 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 District's Board of Directors approved the 2011 and 2010 budgets during the last quarter of the 2010 and 2009 calendar years, respectively. There were no amendments made to the original budgets presented to the state of Colorado for the calendar years 2011 and 2010.

During 2011, net patient service revenue was $839,230 (1.5%) higher than budget, while operating expense was $1,455,773 (2.6%) lower than budget. In 2010, net patient service revenue was $3,569,799 (6.6%) higher than budget, while operating expenses were $1,541,922 (2.8%) higher than budget.

Please see page 40 for the statement of budgeted and actual revenues and expenses for the year ended December 31, 2011.

Economic Factors and Next Year's Budget

During 2011, the District experienced a less significant decline in its patient volumes as compared to previous years. Despite the reduction in volumes, the acuity of the patients increased, which generated 3% higher gross patient service revenues for 2011 as compared to 2010. The District's management implemented a number of cost saving initiatives throughout 2011, which combined with a decrease in employee benefits, resulted in a decrease in operating expenses of 0.8%. The total increase in net assets for 2011 increased as compared to 2010 by $2.6 million, caused primarily by the increase in the ad valorem taxes to cover the debt service payments of the Series 2010 Bonds due in 2011.

The District continues to outsource its billing office to Computer Sciences Corporation and Firstsource Solutions located in Belleville, Illinois. This arrangement, which has been in place since 2005, continues to result in the extraordinary management of accounts receivable and increased unrestricted cash. Evidence of this is in the fact that net days in accounts receivable for both 2011 and 2010 were below 47 days. Net accounts receivable decreased by $356,908 (5%) despite growth of gross revenues of $2,301,829 during 2011. Unrestricted cash balances increased by $8,335,584 or 18% compared to 2010 levels.

In constructing the District's 2012 budget, management took into account the effects of the local and national economy, and anticipated volume declines of approximately 5% in the inpatient population, while maintaining the same levels of outpatient volumes. As a result of these assumptions, gross revenues for 2012 are budgeted to be slightly higher (3.2% increase) when compared to 2011. Expenses for 2012 are expected to increase slightly (1.1%) over 2011, generating an anticipated increase in net assets for 2012 of $8.8 million, a reduction of $690,000 from 2011.

Contacting the District's Financial Management

This management discussion and analysis report is designed to provide interested parties with a general overview of the District's financial activity for the 2011 and 2010 calendar years and to demonstrate the District's accountability for its management of the finances of the District. 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

Balance Sheets

December 31, 2011 and 2010

Assets

	2011		2010	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Current Assets				
Cash and cash equivalents	$ 13,656,282	$ 111,627	$ 11,188,411	$ 111,346
Short-term investments	23,450,333	-	17,765,196	-
Patient accounts receivable, net	7,094,685	629,058	7,451,593	621,733
Contributions receivable	247,605	-	690,515	-
Other receivables	1,108,377	5,000	1,755,128	5,000
Inventories	1,817,687	141,660	1,626,066	116,779
Prepaid expenses	880,119	-	1,075,675	-
Total current assets	48,255,088	887,345	41,552,584	854,858
Noncurrent Cash and Investments				
Internally designated for capital acquisitions	18,758,172	-	18,575,596	-
Bond funds restricted for capital acquisitions	27,706,704	-	50,109,327	-
Held by trustee for debt service	2,441,273	-	2,440,279	-
	48,906,149	-	71,125,202	-
Capital Assets, Net	62,258,249	808,776	34,200,002	831,748
Other Assets				
Contributions receivable	324,780	-	324,780	-
Physician guarantees receivable	124,992	-	173,945	-
Investment in joint venture	130,666	-	123,989	-
Other	1,018,305	-	1,145,026	-
	1,598,743	-	1,767,740	-
Total assets	$ 161,018,229	$ 1,696,121	$ 148,645,528	$ 1,686,606

Liabilities and Net Assets

	2011		2010	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Current Liabilities				
Current maturities of long-term debt	$ 3,100,851	$ 36,338	$ 3,150,013	$ -
Accounts payable	2,010,181	53,584	1,836,274	75,868
Accrued salaries, benefits and payroll taxes	1,731,141	-	1,581,798	-
Other accrued liabilities	1,097,502	141,737	1,072,106	126,093
Refunds payable	131,576	-	96,351	-
Unclaimed refunds payable	226,664	-	317,732	-
Construction payable	4,593,597	-	332,675	-
Estimated amounts due to third-party payers	808,241	-	520,000	-
Total current liabilities	13,699,753	231,659	8,906,949	201,961
Long-term Debt				
Bonds payable	67,189,738	-	69,759,858	-
Capital lease obligations	1,171,209	106,667	448,096	-
Note payable	546,281	-	562,115	-
	68,907,228	106,667	70,770,069	-
Total liabilities	82,606,981	338,326	79,677,018	201,961
Net Assets				
Invested in capital assets, net of related debt	17,956,874	-	10,389,247	-
Restricted - expendable for				
Debt service	2,441,273	-	2,440,279	-
Capital acquisitions	299,780	-	506,030	-
Specific operating activities	272,605	-	423,156	-
Reserved for minority interests	-	665,320	-	727,476
Unrestricted	57,440,716	692,475	55,209,798	757,169
Total net assets	78,411,248	1,357,795	68,968,510	1,484,645
Total liabilities and net assets	$ 161,018,229	$ 1,696,121	$ 148,645,528	$ 1,686,606

Aspen Valley Hospital District

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended December 31, 2011 and 2010

	2011		2010	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Operating Revenues				
Net patient service revenue	$ 57,710,721	$ 4,181,676	$ 57,313,190	$ 4,311,041
Other	2,021,023	-	2,096,328	-
Total operating revenues	59,731,744	4,181,676	59,409,518	4,311,041
Operating Expenses				
Salaries and wages	22,824,088	607,868	22,582,846	654,244
Contract labor	1,128,449	-	1,719,974	-
Supplies and other	28,313,272	1,763,208	28,694,133	1,781,206
Depreciation and amortization	4,805,334	248,478	4,502,759	257,426
Total operating expenses	57,071,143	2,619,554	57,499,712	2,692,876
Operating Income	2,660,601	1,562,122	1,909,806	1,618,165
Nonoperating Revenues (Expenses)				
Ad valorem taxes	6,745,008	-	3,517,093	-
Investment income	354,420	11,028	878,251	25,786
Interest expense	(810,205)	-	(962,091)	-
Community assistance programs	(217,933)	-	(106,831)	-
Noncapital contributions	90,012	-	54,910	-
Gain on investment in joint venture	52,073	-	52,073	-
Loss on disposal of capital assets	(298,238)	-	(8,179)	-
Total nonoperating revenues (expenses)	5,915,137	11,028	3,425,226	25,786
Excess of Revenues Over Expenses Before Capital Contributions, Member Distributions, Equity Contributions and Transfers	8,575,738	1,573,150	5,335,032	1,643,951
Capital contributions	-	-	85,600	-
Member distributions	867,000	(1,700,000)	1,084,736	(2,060,000)
Transfer of equity - Snowmass Clinic Associates, LLP	-	-	313,799	(392,248)
Change in Net Assets	9,442,738	(126,850)	6,819,167	(808,297)
Net Assets, Beginning of Year	68,968,510	1,484,645	62,149,343	2,292,942
Net Assets, End of Year	$ 78,411,248	$ 1,357,795	$ 68,968,510	$ 1,484,645

Aspen Valley Hospital District

Statements of Cash Flows

Years Ended December 31, 2011 and 2010

	2011		2010	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Operating Activities				
Receipts from and on behalf of patients	$ 58,300,027	$ 4,174,351	$ 57,371,916	$ 4,308,008
Payments to suppliers	(28,901,531)	(1,794,729)	(31,484,491)	(2,128,903)
Payments to employees	(22,674,745)	(607,868)	(22,401,706)	(676,619)
Other receipts (payments), net	3,048,265	-	1,363,028	187,358
Net cash provided by operating activities	9,772,016	1,771,754	4,848,747	1,689,844
Noncapital Financing Activities				
Ad valorem taxes	3,549,879	-	3,517,093	-
Community assistance programs	(112,100)	-	(106,831)	-
Noncapital contributions	247,657	-	54,910	-
Net cash provided by noncapital financing activities	3,685,436	-	3,465,172	-
Capital and Related Financing Activities				
Ad valorem taxes	3,250,759	-	-	-
Purchases of capital assets	(28,008,105)	(70,130)	(5,226,655)	145,188
Proceeds from sale of capital assets	29,250	-	10,019	-
Proceeds from issuance of bonds	-	-	50,499,827	-
Principal payments on long-term debt	(3,196,176)	(12,371)	(1,213,942)	-
Interest payments on long-term debt	(810,205)	-	(962,091)	-
Capital contributions	288,493	-	85,600	-
Net cash provided by (used in) capital and related financing activities	(28,445,984)	(82,501)	43,192,758	145,188
Investing Activities				
Purchases of investments, net	(5,858,898)	-	(765,376)	-
Investment income	418,972	11,028	947,694	25,786
Member distributions	494,700	(1,700,000)	1,084,736	(2,060,000)
Transfer of equity - Snowmass Clinic Associates, LLP	-	-	313,799	(392,248)
Net cash provided by (used in) investing activities	(4,945,226)	(1,688,972)	1,580,853	(2,426,462)
Increase (Decrease) in Cash and Cash Equivalents	(19,933,758)	281	53,087,530	(591,430)
Cash and Cash Equivalents, Beginning of Year	63,738,017	111,346	10,650,487	702,776
Cash and Cash Equivalents, End of Year	$ 43,804,259	$ 111,627	$ 63,738,017	$ 111,346

Aspen Valley Hospital District

Statements of Cash Flows (Continued)

Years Ended December 31, 2011 and 2010

	2011		2010	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Reconciliation of Cash and Cash Equivalents to the Balance Sheets				
Cash and cash equivalents	$ 13,656,282	$ 111,627	$ 11,188,411	$ 111,346
Bond funds restricted for capital acquisitions	27,706,704	-	50,109,327	-
Held by trustee for debt service	2,441,273	-	2,440,279	-
Total cash and cash equivalents	$ 43,804,259	$ 111,627	$ 63,738,017	$ 111,346
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating income	$ 2,660,601	$ 1,562,122	$ 1,909,806	$ 1,618,165
Depreciation and amortization	4,805,334	248,478	4,502,759	257,426
Provision for uncollectible accounts	2,580,949	-	2,272,739	-
Change in operating assets and liabilities				
Patient accounts receivable	(2,224,041)	(7,325)	(2,960,890)	(3,033)
Contributions receivable	154,417	-	107,760	-
Other receivables	855,544	-	(231,145)	59,963
Inventories	(191,621)	(24,881)	(29)	4,665
Prepaid expenses	195,556	-	(13,512)	78,866
Other assets	17,281	-	(609,915)	127,395
Accounts payable	548,151	(22,284)	(1,057,941)	19,282
Accrued salaries, benefits and payroll taxes	149,343	-	181,140	(22,375)
Other accrued liabilities	(11,896)	15,644	1,098	(450,510)
Refunds payable	35,225	-	37,583	-
Unclaimed refunds payable	(91,068)	-	(98,374)	-
Estimated amounts due to and due from third-party payers	288,241	-	807,668	-
Net cash provided by operating activities	$ 9,772,016	$ 1,771,754	$ 4,848,747	$ 1,689,844
Supplemental Cash Flows Information				
Capital lease obligations for equipment	$ 1,284,173	$ 155,376	$ -	$ -
Capital asset acquisitions included in current liabilities	$ 4,390,958	$ -	$ 1,006,472	$ -
Member distributions included in accounts receivable	$ 372,300	$ -	$ -	$ -

Aspen Valley Hospital District

Statements of Fiduciary Net Assets

Fiduciary Funds

Years Ended December 31, 2011 and 2010

	2011	2010
Assets		
Investments	$ 13,432,989	$ 12,489,481
Net Assets - Held for Pension Benefits	$ 13,432,989	$ 12,489,481

Aspen Valley Hospital District
Statements of Changes in Fiduciary Net Assets
Fiduciary Funds
Years Ended December 31, 2011 and 2010

	2011	2010
Additions		
Contributions for employee benefits	$ 1,438,808	$ 1,508,000
Investment earnings	118,221	1,458,153
Total additions	1,557,029	2,966,153
Deductions		
Benefits	613,521	510,204
Administrative expenses	-	12,056
Total deductions	613,521	522,260
Change in Net Assets	943,508	2,443,893
Net Assets, Beginning of Year	12,489,481	10,045,588
Net Assets, End of Year	$ 13,432,989	$ 12,489,481

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and 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 3% 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.

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.

Effective January 1, 2010, the District purchased the remaining 20% minority interest in Snowmass Clinic Associates, LLC (SMC). SMC was previously reported as a discretely presented component unit in the 2009 report. The results of operations are included in the operating results of the District for the years ended December 31, 2011 and 2010.

Basis of Accounting and Presentation

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), ad valorem taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

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 on and after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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.

Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2011 and 2010, cash equivalents consisted primarily of money market accounts with financial institutions.

Risk Management

The District 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; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income consists entirely of interest and dividend income.

Noncurrent cash and investments are assets internally designated for capital acquisitions, bond fund restricted for capital acquisitions, and held by trustees under the Bond Indenture Agreements for debt service. 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.

Patient Accounts Receivable

The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The District provides an allowance for bad debts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Inventories

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

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.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the District:

Land improvements	7 – 25 years
Buildings	5 – 40 years
Fixed equipment	5 – 20 years
Moveable equipment	3 – 20 years
Employee housing	5 – 25 years

The District capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	2011	2010
Total interest expense incurred on borrowings for project	$ 2,348,300	$ 103,575
Total interest income from investment of proceeds of borrowings for project	857,671	31,385
Net interest cost capitalized	$ 1,490,629	$ 72,190
Interest capitalized	$ 2,348,300	$ 103,575
Interest charged to expense	810,205	962,091
	$ 3,158,505	$ 1,065,666

Construction contracts of approximately $61,418,000 exist for the hospital expansion. At December 31, 2011, the remaining commitment on these contracts is approximately $38,503,000.

Deferred Financing Costs

Deferred financing costs consist of costs incurred in connection with the issuance of long-term debt and are included in other assets in the balance sheets. Such costs are being amortized over the term of the respective debt using the effective interest method.

Compensated Absences

District policies permit employees to accumulate vacation and sick leave benefits that may be realized as paid time off (PTO) or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as PTO benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

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.

Net Assets

Net assets of the District are classified in four components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the District, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Reserved for minority interests consist of the component units minority interests held by outside parties. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Net Patient Service Revenue

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and bad debts expense. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

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 $3,175,573 and $2,420,822 for 2011 and 2010, respectively.

Ad Valorem Taxes

The District received approximately 4% of its sources of funds from ad valorem taxes related to the general operating mill levy in 2011 and 2010, respectively. These funds were used to support the operating and capital needs of the District. In November 2010, the voters in the District approved the District's mill levy for a five-year period through 2015. In addition, the voters also approved a separate general obligation bonds and interest mill levy to fund the debt service of the Series 2010 bond issuance.

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

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.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the District's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The District will recognize revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period. No EHR amounts are recognized for the years ending December 31, 2011 and 2010.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the changes in financial position.

Note 2: 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:

	2011	2010
FDIC insured	$ 39,948,827	$ 36,789,684
Collateralized by securities held by the pledging financial institution's trust department or agent in other than the District's name	18,598,330	62,250,626
Total	$ 58,547,157	$ 99,040,310
Carrying value on the balance sheets at December 31	$ 56,933,687	$ 98,720,372

The carrying value on the balance sheets at December 31, 2011 and 2010, includes noncurrent cash and investments of $19,829,872 and $69,704,065, respectively.

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, 2011 and 2010, investments amounted to $42,509,266 and $13,845,118, 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 fund 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:

	2011	2010
Carrying value		
Deposits	$ 56,933,687	$ 98,720,372
Investments	42,509,266	13,845,118
Cash on hand and change funds	2,800	2,800
	$ 99,445,753	$112,568,290
Included in the following balance sheet captions		
Cash and cash equivalents	$ 13,656,282	$ 11,188,411
Short-term investments	23,450,333	17,765,196
Internally designated for capital acquisitions	18,758,172	18,575,596
Bond funds restricted for capital acquisitions	27,706,704	50,109,327
Held by trustee under bond agreement	2,441,273	2,440,279
Held by trustee under pension plan agreement (fiduciary fund assets)	13,432,989	12,489,481
	$ 99,445,753	$112,568,290

Note 3: Patient Accounts Receivable

The District grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. Patient accounts receivable, net consists of the following at December 31:

	2011	2010
Patient accounts receivable, gross	$ 9,588,848	$ 9,687,905
Allowance for uncollectible accounts	(712,723)	(681,167)
Allowance for contractual adjustments	(1,781,440)	(1,555,145)
Patient accounts receivable, net	$ 7,094,685	$ 7,451,593

The mix of net receivables from patients and third-party payers at December 31 is as follows:

	2011	2010
Medicare	14%	11%
Medicaid	2%	1%
Blue Cross	19%	12%
Other third-party payers	63%	73%
Self-pay	2%	3%
	100%	100%

Note 4: Net Patient Service Revenue

The District has agreements with third-party payers 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 administrative contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The District is reimbursed for cost-reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid administrative contractor.

Approximately 25% and 21% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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 patient service revenue is computed as follows for the years ended December 31:

	2011	2010
Gross patient service revenue	$ 78,253,969	$ 75,952,140
Less		
Medicare contractuals	6,910,380	6,182,384
Medicaid contractuals	323,359	542,272
Other contractuals and adjustments	7,552,987	7,220,733
Charity care	3,175,573	2,420,822
Provision for uncollectible accounts	2,580,949	2,272,739
Net patient service revenue	$ 57,710,721	$ 57,313,190

Note 5: Physician Guarantee Contracts

The District has entered into income guarantee contracts with 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 District has no liability under the physician guarantee contracts at December 31, 2011 and 2010. The carrying amounts of the physician guarantee contracts are included in the balance sheets as follows:

	2011	2010
Other receivables	$ 48,954	$ 264,618
Physician gurantees receivable	124,992	173,945
	$ 173,946	$ 438,563

Aspen Valley Hospital District

Notes to Financial Statements

December 31, 2011 and 2010

Note 6: Capital Assets

Capital assets activity for the years ended December 31 was:

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 267,057	$ -	$ -	$ -	$ 267,057
Land improvements	1,051,759	-	(169,797)	-	881,962
Buildings	15,181,245	-	(1,243,709)	-	13,937,536
Fixed equipment	6,747,676	-	(2,568,382)	-	4,179,294
Moveable equipment	31,747,419	3,515,160	(5,769,778)	-	29,492,801
Employee housing	8,630,077	89,876	(93,707)	-	8,626,246
Construction in progress	8,528,146	29,482,554	-	-	38,010,700
	72,153,379	33,087,590	(9,845,373)	-	95,395,596
Less accumulated depreciation					
Land improvements	654,600	48,248	(169,658)	-	533,190
Buildings	8,330,596	596,860	(708,775)	-	8,218,681
Fixed equipment	3,343,230	371,800	(2,971,404)	-	743,626
Moveable equipment	22,368,182	3,404,610	(5,616,288)	-	20,156,504
Employee housing	3,256,769	274,376	(45,799)	-	3,485,346
	37,953,377	4,695,894	(9,511,924)	-	33,137,347
Capital assets, net	$ 34,200,002	$28,391,696	$ (333,449)	$ -	$ 62,258,249

	2010				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 267,057	$ -	$ -	$ -	$ 267,057
Land improvements	1,051,759	-	-	-	1,051,759
Buildings	15,079,063	102,182	-	-	15,181,245
Fixed equipment	6,747,676	-	-	-	6,747,676
Moveable equipment	30,602,578	1,353,979	(209,138)	-	31,747,419
Employee housing	8,571,021	59,056	-	-	8,630,077
Construction in progress	3,789,457	4,738,689	-	-	8,528,146
	66,108,611	6,253,906	(209,138)	-	72,153,379
Less accumulated depreciation					
Land improvements	621,173	33,427	-	-	654,600
Buildings	7,741,395	589,201	-	-	8,330,596
Fixed equipment	2,997,333	345,897	-	-	3,343,230
Moveable equipment	19,355,535	3,203,344	(190,697)	-	22,368,182
Employee housing	2,980,842	275,927	-	-	3,256,769
	33,696,278	4,447,796	(190,697)	-	37,953,377
Capital assets, net	$ 32,412,333	$ 1,806,110	$ (18,441)	$ -	$ 34,200,002

Note 7: Medical Malpractice Claims

The District purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the District’s claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term. The District is subject to the provisions of the Colorado Government Immunity Act which provides a limitation on the liability of the District.

Note 8: Employee Health Claims

The District partially self-insures the cost of employee health care benefits as it purchases annual stop-loss insurance coverage for all claims in excess of $150,000 and $125,000 for the years ended December 31, 2011 and 2010, 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.

Activity in the District's accrued health employee health claims liability during 2011 and 2010 is summarized as follows:

	2011	2010
Unpaid claims at beginning of year	$ 648,751	$ 503,000
Total incurred claims and claim adjustment expenses	3,391,673	3,835,338
Total payments	(3,450,789)	(3,689,587)
Total unpaid claims and claim adjustment expenses at end of year	$ 589,635	$ 648,751

Note 9: Taxes, 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 its operations qualify for this exclusion.

Note 10: Long-term Debt

The following is a summary of long-term obligation transactions for the District for the years ended December 31:

	2011					
	Beginning Balance	Additions	Payments	Ending Balance	Amounts Due Within One Year	Long-term Portion
2003 revenue bonds payable	$ 10,840,000	$ -	$ (125,000)	$ 10,715,000	$ 125,000	$ 10,590,000
2007 revenue bonds payable	11,595,000	-	(500,000)	11,095,000	520,000	10,575,000
2010 revenue bonds payable	50,000,000	-	(1,950,000)	48,050,000	1,925,000	46,125,000
Note payable	576,591	-	(14,237)	562,354	16,073	546,281
Capital leases	1,008,579	1,284,173	(606,885)	1,685,867	514,658	1,171,209
	74,020,170	1,284,173	(3,196,122)	72,108,221	3,100,731	69,007,490
Unamortized premium on Series 2010 bonds	499,827	-	(36,557)	463,270	37,403	425,867
Unamortized premium on Series 2007 bonds	180,228	-	(18,566)	161,662	17,786	143,876
Unamortized loss on refunding 2000 and 2001 bonds	(780,143)	-	55,069	(725,074)	(55,069)	(670,005)
	$ 73,920,082	$ 1,284,173	$ (3,196,176)	$ 72,008,079	$ 3,100,851	$ 68,907,228

	2010					
	Beginning Balance	Additions	Payments	Ending Balance	Amounts Due Within One Year	Long-term Portion
2003 revenue bonds payable	$ 10,965,000	$ -	$ (125,000)	$ 10,840,000	$ 125,000	$ 10,715,000
2007 revenue bonds payable	12,075,000	-	(480,000)	11,595,000	500,000	11,095,000
2010 revenue bonds payable	-	50,000,000	-	50,000,000	1,950,000	48,050,000
Note payable	593,328	-	(16,737)	576,591	14,476	562,115
Capital leases	1,635,960	-	(627,381)	1,008,579	560,483	448,096
	25,269,288	50,000,000	(1,249,118)	74,020,170	3,149,959	70,870,211
Unamortized premium on Series 2010 bonds	-	499,827	-	499,827	36,557	463,270
Unamortized premium on Series 2007 bonds	200,121	-	(19,893)	180,228	18,566	161,662
Unamortized loss on refunding 2000 and 2001 bonds	(835,212)	-	55,069	(780,143)	(55,069)	(725,074)
	$ 24,634,197	$ 50,499,827	$ (1,213,942)	$ 73,920,082	$ 3,150,013	$ 70,770,069

Revenue Bonds Payable – Series 2003

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, 2011 and 2010, was 0.09% and 0.33%, respectively. Interest rates assigned on each bond for the last week of December 2011 were used for calculating estimated future interest payments on the bonds. 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. These bonds are remarketed on a periodic basis and are supported by a letter of credit in the event the bonds are not able to be remarketed. Any advances made under the letter of credit agreement will be financed on a long-term basis. As of December 31, 2011, all variable rate bonds have been successfully remarketed. 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.

Revenue Bonds Payable – Series 2007

Hospital Refunding Bonds – Series 2007, due 2026, payable in increasing varying annual installments through October 15, 2026, bearing interest rates of 4.375% to 4.75%, 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.

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 2001 bonds at the time of defeasance. There are no Series 2001 and Series 2000 bonds outstanding which have not been called as of December 31, 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.

General Obligation Bonds Payable – Series 2010A and Series 2010B

The District issued Tax-Exempt General Obligation Bonds, Series 2010A, and Taxable General Obligation Bonds (Direct Pay Build America Bonds), Series 2010B, for purpose of financing a portion of the costs of acquiring, improving, constructing, equipping and furnishing hospital facilities. The Series 2010A bonds are due in increasing varying annual installments through December 2016, bearing interest rates of 2% to 4%, payable semi-annually. The Series 2010B bonds are due in increasing varying annual installments beginning December 2017 through December 2030, bearing interest rates of 3.661% to 4.523%, payable semi-annually. The 2010 bonds are issued and pursuant to and are secured by the Bond Resolution. The bonds are general obligations payable from the revenues derived from the voter-approved ad valorem tax appropriations.

Note Payable to Bank

The District has 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 rate. The variable rate at December 31, 2011 and 2010, was 2.05% and 2.15%, respectively.

Capital Lease Obligations

The District has capitalized lease obligations at varying rates of imputed interest maturing between 2011 and 2016 that are collateralized by leased equipment.

The debt service requirements as of December 31, 2011, are as follows:

	Revenue Bonds Payable		Note Payable		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
Year Ending December 31						
2012	$ 2,570,000	$ 2,856,735	$ 16,073	$ 14,635	$ 515,845	$ 21,086
2013	2,635,000	2,793,423	546,281	13,090	393,901	23,261
2014	2,720,000	2,715,224	-	-	287,337	15,521
2015	2,785,000	2,649,554	-	-	291,893	8,479
2016	2,875,000	2,557,792	-	-	196,891	1,742
2017-2021	15,840,000	11,006,541	-	-	-	-
2022-2026	18,785,000	7,018,109	-	-	-	-
2027-2031	18,935,000	2,003,599	-	-	-	-
2032-2036	2,715,000	3,641	-	-	-	-
	$69,860,000	$33,604,618	$ 562,354	$ 27,725	$ 1,685,867	$ 70,089

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

	2011	2010
Major moveable equipment	$ 3,261,303	$ 3,833,817
Less accumulated depreciation	1,635,429	2,627,671
	$ 1,625,874	$ 1,206,146

Note 11: Operating Leases

The District leases various facility spaces and equipment under operating leases expiring through 2016. Future five-year minimum lease payments under these noncancelable leases at December 31, 2011, are:

2012	$ 548,675
2013	427,440
2014	325,758
2015	279,371
2016	279,649
Future minimum lease payments	$ 1,860,893

Rental expense for all operating leases at December 31, 2011 and 2010, was $1,159,864 and $1,039,436, respectively.

Note 12: 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 health care in the Roaring Fork Valley of Colorado. The Foundation's office is located in the Aspen Valley Hospital. The District receives contribution pledges from the Foundation for operations and capital-related items. For the years ended December 31, 2011 and 2010, the District received contribution pledges of $62,565 and $88,609, respectively, from the Foundation. Contribution payments received from the Foundation during 2011 and 2010 totaled $502,475 and $182,868, respectively. As of December 31, 2011 and 2010, contributions receivable totaled $572,885 and $1,015,295, respectively.

Note 13: Pension Plans

Defined Contribution Plan

The District provides a 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 $1,530,670 and $1,471,254 for the years ended December 31, 2011 and 2010, respectively. The District does not make contributions to the 457(b) plan.

The District also provides 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 2.5% of their annual compensation; 5% for purposes of the CEO. Contribution expense to the 401(a) plan was $356,390 and $341,473 for the years ended December 31, 2011 and 2010, respectively.

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 Assets

The District's annual pension cost and net pension asset to the Plan for the years ended December 31, 2011 and 2010, was as follows:

	2011	2010
Annual required contribution	$ 1,438,808	$ 1,480,454
Interest on net pension asset	(32,548)	(32,446)
Adjustment to annual required contribution	58,813	58,628
Annual pension cost	1,465,073	1,506,636
Adjustment to net pension asset	-	17,892
Contributions made	(1,438,808)	(1,508,000)
Decrease in net pension asset	26,265	16,528
Net pension asset at beginning of year	433,974	450,502
Net pension asset at end of year	$ 407,709	$ 433,974

The annual required contribution for the years ended December 31, 2011 and 2010, was determined as part of the January 1, 2011 and 2010, actuarial valuation using the unit credit cost method, respectively. The actuarial assumptions for the years ended December 31 are as follows:

	2011	2010
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%

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, 2011 and 2010, is 10 years.

As of January 1, 2011, the most recent actuarial valuation dated, the Plan was 88% funded. The actuarial accrued liability for benefits was $14,158,352 and actuarial value of assets was $12,489,481 resulting in an unfunded actuarial accrued liability (UAAL) of $1,668,871. The covered payroll was $19,358,574, and the ratio of the UAAL to the covered payroll was 9%.

The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Three-year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2009	$ 1,693,498	99%	$ 450,502
2010	1,506,636	100%	433,974
2011	1,465,073	98%	407,709

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 14: Contingencies

Litigation

In the normal course of business, the District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the District's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. 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. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 15: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

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)
6/1/02	$ 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%
1/1/10	10,045,588	12,613,235	(2,567,647)	80%	18,360,934	-14%
1/1/11	12,489,481	14,158,352	(1,668,871)	88%	19,358,574	-9%

Aspen Valley Hospital District

Schedule of Employer Contributions –
Cash Balance Retirement Plan
Years Ended December 31

Fiscal Year	Annual Required Contribution (ARC)	Percentage of ARC Contributed
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%
2010	1,508,000	100%
2011	1,438,808	100%

Aspen Valley Hospital District

Statement of Budgeted and Actual Revenues and Expenses

Year Ended December 31, 2011

	Budgeted Amount Original	Actual	Favorable (Unfavorable) Variance
Operating Revenues			
Net patient service revenue	$ 56,871,491	$ 57,710,721	$ 839,230
Other	2,021,946	2,021,023	(923)
Total operating revenues	58,893,437	59,731,744	838,307
Operating Expenses	58,526,916	57,071,143	1,455,773
Operating Income	366,521	2,660,601	2,294,080
Nonoperating Revenues (Expenses)			
Ad valorem taxes	7,107,000	6,745,008	(361,992)
Investment income	908,000	354,420	(553,580)
Interest expense	(2,700,000)	(810,205)	1,889,795
Community assistance programs	(519,455)	(217,933)	301,522
Noncapital contributions	300,000	90,012	(209,988)
Gain on investment in joint venture	-	52,073	52,073
Loss on disposal of capital assets	-	(298,238)	(298,238)
Total nonoperating revenues (expenses)	5,095,545	5,915,137	819,592
Excess of Revenues Over Expenses Before Capital Contributions, Member Distributions and Transfers	5,462,066	8,575,738	3,113,672
Member distributions	750,000	867,000	117,000
Change in Net Assets	$ 6,212,066	$ 9,442,738	$ 3,230,672

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 2011.

Aspen Valley Hospital District

Combining Statement of Balance Sheets – Component Units

Year Ended December 31, 2011

	Midvalley Ambulatory Surgery Center, LLC	Midvalley Imaging Center, LLC	Total
Assets			
Current Assets			
Cash and cash equivalents	$ 83,651	$ 27,976	$ 111,627
Patient accounts receivable, net	497,952	131,106	629,058
Other receivables	-	5,000	5,000
Inventories	141,660	-	141,660
Total current assets	723,263	164,082	887,345
Capital Assets, Net	282,265	526,511	808,776
Total assets	$ 1,005,528	$ 690,593	$ 1,696,121
Liabilities and Net Assets			
Current Liabilities			
Current maturities of long-term debt	$ 36,338	$ -	$ 36,338
Accounts payable	41,360	12,224	53,584
Other accrued liabilities	141,737	-	141,737
Total current liabilities	219,435	12,224	231,659
Long-term Debt	106,667	-	106,667
Net Assets			
Reserved for minority interests	332,919	332,401	665,320
Unrestricted	346,507	345,968	692,475
Total net assets	679,426	678,369	1,357,795
Total liabilities and net assets	$ 1,005,528	$ 690,593	$ 1,696,121

Aspen Valley Hospital District

Combining Statement of Revenues, Expenses and Changes in Net Assets – Component Units

Year Ended December 31, 2011

	Midvalley Ambulatory Surgery Center, LLC	Midvalley Imaging Center, LLC	Total
Operating Revenues			
Net patient service revenue	$ 3,358,393	$ 823,283	$ 4,181,676
Operating Expenses			
Salaries and wages	526,520	81,348	607,868
Supplies and other	1,467,053	296,155	1,763,208
Depreciation and amortization	75,749	172,729	248,478
Total operating expenses	2,069,322	550,232	2,619,554
Operating Income	1,289,071	273,051	1,562,122
Nonoperating Revenues (Expenses)			
Investment income	10,679	349	11,028
Excess of Revenues Over Expenses Before Member Distributions	1,299,750	273,400	1,573,150
Member distributions	(1,245,000)	(455,000)	(1,700,000)
Change in Net Assets	54,750	(181,600)	(126,850)
Net Assets, Beginning of Year	624,676	859,969	1,484,645
Net Assets, End of Year	$ 679,426	$ 678,369	$ 1,357,795

Aspen Valley Hospital District

Combining Statement of Cash Flows – Component Units

Year Ended December 31, 2011

	Midvalley Ambulatory Surgery Center, LLC	Midvalley Imaging Center, LLC	Total
Operating Activities			
Receipts from and on behalf of patients	$ 3,328,176	$ 846,175	$ 4,174,351
Payments to suppliers	(1,490,864)	(303,865)	(1,794,729)
Payments to employees	(526,520)	(81,348)	(607,868)
Net cash provided by operating activities	1,310,792	460,962	1,771,754
Capital and Related Financing Activities			
Purchases of capital assets	(69,637)	(493)	(70,130)
Principal payments on long-term debt	(12,371)	-	(12,371)
Net cash used in capital and related financing activities	(82,008)	(493)	(82,501)
Investing Activities			
Investment income	10,679	349	11,028
Member distributions	(1,245,000)	(455,000)	(1,700,000)
Net cash used in investing activities	(1,234,321)	(454,651)	(1,688,972)
Increase (Decrease) in Cash and Cash Equivalents	(5,537)	5,818	281
Cash and Cash Equivalents, Beginning of Year	89,188	22,158	111,346
Cash and Cash Equivalents, End of Year	$ 83,651	$ 27,976	$ 111,627
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	$ 1,289,071	$ 273,051	$ 1,562,122
Depreciation and amortization	75,749	172,729	248,478
Change in operating assets and liabilities			
Patient accounts receivable	(30,217)	22,892	(7,325)
Inventories	(24,881)	-	(24,881)
Accounts payable	(14,574)	(7,710)	(22,284)
Other accrued liabilities	15,644	-	15,644
Net cash provided by operating activities	$ 1,310,792	$ 460,962	$ 1,771,754