Aspen Valley Hospital District

Independent Auditor's Report and Financial Statements

December 31, 2012 and 2011

BKD LLP
CPAs & Advisors

Aspen Valley Hospital District

December 31, 2012 and 2011

Contents

Independent Auditor's 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 and the aggregate discretely presented component units, which are comprised of balance sheets as of December 31, 2012 and 2011, and statements of revenues, expenditures and changes in net position and statements of cash flows for the years then ended, and the fiduciary fund comprised of statements of fiduciary net position as of December 31, 2012 and 2011, and statements of changes in fiduciary net position for the years then ended, which collectively comprise Aspen Valley Hospital District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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 information of Aspen Valley Hospital District as of December 31, 2012 and 2011, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

BKD, LLP

Wichita, Kansas
March 22, 2013

Aspen Valley Hospital District
Management's Discussion and Analysis
Years Ended December 31, 2012 and 2011

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, 2012 and 2011.

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, 2012 and 2011.
2. **Statements of Revenues, Expenses and Changes in Net Position:** reports the cumulative activity of providing health care services and the expenses related to such activity for the years ended December 31, 2012 and 2011.
3. **Statements of Cash Flows:** outlines the cash inflows and outflows related to the activity of providing health care services for the year ended December 31, 2012 and 2011.
4. **Notes to the Financial Statements:** provide explanation and clarification on specific items within the previously mentioned financial statements.

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

Balance Sheets

The District's total assets at the end of 2012 were $179,091,948 compared to $161,425,938 for 2011 and $149,079,052 at the end of 2010. The $17,666,010 increase from 2011 total assets is attributable to the increase in cash and cash equivalents, short-term investments, patient accounts receivable, prepaid expenses and capital assets; and decreases in contributions and other receivables, inventories, restricted assets and other assets. The increase of $12,346,436 from 2010 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.

At December 31, 2012, assets consisted primarily of cash and cash equivalents of $19,609,591; net patient accounts receivable of $7,896,322; short-term investments of $27,240,620; assets internally designated for capital acquisitions of $10,617,992; contributions receivable held by Aspen Community Foundation of $2,147,384; assets held by Aspen Community Foundation for capital acquisitions of $1,947,842; assets held by trustee for debt service of $2,372,552 and net capital assets of $101,279,351.

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.

Comparable asset balances at December 31, 2010, 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. The $39,021,102 increase in capital assets during 2012, resulted from the use of the proceeds from the 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 have been 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 2012, 2011, and 2010 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 2012, 2011 and 2010.

The District's total liabilities at December 31, 2012, were $85,007,228; noting accounts payable of $2,746,000; construction payable of $9,527,123; accrued liabilities of $3,563,518; patient and insurance refunds payable of $84,719; unclaimed refunds payable of $131,740; estimated amounts due to third-party payers of $129,543; long-term bonds payable of $64,670,303; long-term capital lease obligations of $759,268 and current maturities of long-term debt of $3,395,014.

The District's total liabilities at December 31, 2011, were $83,014,690; noting accounts payable of $2,010,181; construction payable of $4,593,597; accrued liabilities of $3,236,352; 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 and current maturities of $3,100,851; long-term capital lease obligations of $1,171,209 and long-term notes payable of $546,281.

At December 31, 2010, total liabilities were $80,110,992 consisting primarily of accounts payable of $1,836,274; construction payable of $332,675; accrued liabilities of $3,087,878; 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 revenue bonds payable of $69,759,858; 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.

The $1,992,538 net increase in total liabilities for 2012 was attributed mainly to the increase in construction payable resulting from the Master Facilities Plan that began in December 2010. This payable includes outstanding construction invoices and related construction retainage. The District did not issue additional debt during 2012. However, on August 28, 2012, the District refunded its Variable Rate Demand Revenue Bonds, Series 2003 through the issuance of its Refunding Revenue Bonds, Series 2012. The net effect of the transaction resulted in a reduction in bonds payable of $675,000 and recognition of a loss on refunding of $194,770. The proceeds from the bonds were used to refund the Series 2003 Variable Rate Bonds, to fund the Reserve Fund for the Series 2012 Refunding Revenue Bonds and to pay expenses related to the issuance of the bonds.

The $2,903,698 increase in total liabilities for 2011 was attributed mainly to the increase in construction payable resulting from the Master Facilities Plan. The District also purchased, under a new capital lease, 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 $49,845,293 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 have been 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 32 months. The estimated cost of the project is approximately $79,203,806, with a portion of the project being 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. These square footages do not include an additional 15,500 square feet in employee housing units which provides an additional 18 units and our 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 District reported unrestricted net position of $54,395,626 in 2012, $57,440,716 in 2011 and $55,209,798 in 2010. The increase in total net position of $15,673,472 from 2011, $9,442,738 from 2010 and $6,819,167 from 2009 represent net income reported by the District for each year. Net position represents the cumulative changes in gains and losses since the inception of the entity.

Statements of Revenues, Expenses and Changes in Net Position

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 $4,194,513 or 7.3% in 2012 compared to $397,531 or 0.7% in 2011. Net patient service revenue for 2012 in total was $61,905,234 compared to $57,710,721 in 2011 and $57,313,190 in 2010. The most significant factors giving rise to the increase in revenues was the acuity of the patients (the level of severity of the illness), which increased by 8.4% from 2011. These more severe patients require more resources for their treatments in all areas of the hospital, and in particular, the ancillary services (laboratory, radiology and pharmacy). The slower rate of growth in net patient service revenue for both 2011 and 2010 was 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 73% of the District's 2012 patient service revenue generated by outpatient services, compared to 74% in 2011 and 70% in 2010. 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 2012 and 2011 and 66% during 2010. In addition, the District derived approximately 26% of gross revenues from Medicare in 2012, up 1.5 percentage points from 2011 and 3.5 percentage points from 2010. 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 2012, the District received $353,635 of fees from the Aspen Ambulance District, related to the management of their operations, compared to $360,818 of fees received in 2011 and $340,362 in 2010. The $206,110 decrease in other operating revenues in 2012 and $75,305 in 2011 was 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. In addition, nonoperating revenues of the District reflect a net loss from operating their newly formed supporting foundation, Aspen Valley Hospital Foundation. Historically, the District received financial support from the Aspen Valley Medical Foundation, which was governed by an independent board of directors and whose fund raising efforts were devoted to the District and numerous other non-profit organizations. The Aspen Valley Medical Foundation Board and the District's Board determined that the entities' missions were diverging sufficiently and that a separation of the entities was in order. Consequently, on June 15, 2012, the entities separated and the District formed the Aspen Valley Hospital Foundation, whose mission is to solely support the fund raising efforts for the District. Nonoperating revenues and expenses for 2012 were $5,483,673 compared to $5,915,137 in 2011 and $3,425,226 for 2010. The $431,464 decrease from 2011 in nonoperating revenues was attributable to an increase in ad valorem taxes of $190,893, a decrease in investment income of $229,854, an increase in interest expense of $101,468, a decrease in community assistance programs of $105,206, an increase in Aspen Valley Hospital Foundation expenses of $483,203, a decrease in noncapital contributions of $92,096, an increase in gain on investment in joint venture of $23,458 and a decrease in loss on disposal of capital assets of $155,600. 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. Aspen Valley Hospital District has an agreement with Mountain Family Health Centers to provide financial support to cover the 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.

Expenses

In 2012, operating expenses increased $1,299,037 from the 2011 reported data. The factors giving rise to this increase were an increase in salaries and wages of $633,911, a decrease in contract labor of $79,989, an increase in supplies and other of $1,011,860 and a decrease in depreciation and amortization of $426,723. The most significant cause of the increase in the salaries and wages, was the employment of a cardiology physician which is offset by the reduction in physician compensation under supplies and other. Within the supplies and other increase, there was a decrease in physician compensation of $311,913; an increase in patient care supplies of $295,293 (resulting from drug and implantable expense); an increase in advertising and marketing of $37,078; an increase in dues, subscriptions and licenses of $99,120; an increase in legal and consulting of $69,662; an increase in outsourcing of $343,843; an increase in small furniture and minor equipment of $93,862; an increase in employee benefits of $587,242 and a decrease in miscellaneous expenses of $104,816. 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, patient care supplies increased $226,651; maintenance and utilities increased $118,953; outsourcing increased $208,143; legal consulting and audit increased $127,425; employee benefits decreased $831,148 and miscellaneous expenses decreased $230,885. During both 2012 and 2011, the District's management continued to monitor the growth in full-time equivalents and operational expenses resulting in lower expenses than budgeted. 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. 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 on April 2009. As a participant of this program, the District was charged with provider fees totaling $720,447 in 2012 and $675,559 in 2011 (which are offset by a reduction on Medicaid and the Indigent Care Program contractuals of $1,450,792 for 2012 and $1,394,544 in 2011). Such provider fees are being reported within the supplies and other category.

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 (deductibles and co-payments) not covered by their primary insurance. The Hospital 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 2012, the District reported a provision for uncollectible accounts of $2,150,432, compared to $2,580,948 for 2011 and $2,272,739 for 2010. In 2012, the District cleaned up old credit balances, as well as, increased the efficiency of the billing process which resulted in faster collections from third-party payers allowing the District to increase collections on the patients' payment portions. The increase in the provision for uncollectible accounts for 2011 as compared to 2010 was related to an increase in international patient accounts with insufficient insurance coverage during our ski season. The increase in the provision for uncollectible accounts in 2010 compared to 2009 was directly related to an increase in patient accounts receivable of $1,239,305. The District's estimate for allowance for uncollectible accounts is based on Computer Sciences Corporation and Firstsource Solutions' 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 2012 were $3,024,386 or 3.7% of gross patient service revenue, compared to $3,175,573 or 4.1% of gross patient service revenue for 2011, and $2,420,822 or 3.2% of gross patient service revenue for 2010.

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, 2012, 2011 and 2010:

Cash Flows	2012	2011	2010
Operating activities	$ 7,023,083	$ 9,772,016	$ 4,848,747
Noncapital financing activities	3,052,960	3,685,436	3,465,172
Capital and related financing activities	(35,051,976)	(28,445,984)	43,192,758
Investing activities	4,018,775	(4,945,226)	1,580,853
Net increase (decrease) in cash	$ (20,957,158)	$ (19,933,758)	$ 53,087,530

In 2012, the District's cash flow from operations decreased $2,748,933 as compared to 2011 from increased receipts from patients and third-party payers of $1,983,091, increased payments to suppliers of $2,096,498 (a decrease in cash), increased payments to employees of $571,570 (a decrease in cash) and decreased cash receipts from others of $2,063,956. During 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. The District's cash flow from operations decreased $2,117,859 in 2010 resulting 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).

Noncapital financing reflects a decrease in cash flows in 2012 of $632,476 resulting from a decrease in ad valorem tax receipts of $61,053, an increase in community assistance program payments of $29,122 (a decrease in cash) and a decrease in noncapital contributions of $59,109. In 2011, noncapital financing reflected an increase in cash flow of $220,264 resulting from an increase in ad valorem tax receipts of $32,786, an increase 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 reflected an increase 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 in the Master Facilities Plan Fund Drive.

In 2012, the net cash used in capital and related financing activities increased by $6,605,992 primarily due to an increase in the purchases of capital assets of $7,603,631, an increase in principal payments on long-term debt of $835,578 and an increase in interest payments on long-term debt of $101,468. In addition, the District refunded its Variable Rate Demand Revenue Bonds, Series 2003 through the issuance of its Refunding Revenue Bonds, Series 2012, dated August 28, 2012. 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 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.

In 2012, investing activities reflected an increase of $8,964,001 as compared to 2011 from an increase in purchases of investments (a decrease in cash) of $8,260,949, a decrease in investment income of $240,147 and an increase in member distributions (an increase in cash) of $943,199. 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 2012 and 2011, the District purchased investments in addition to holding investments purchased in previous years and also experienced a significant drop in interest income as interest rates lowered. 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 their 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.

Outstanding Debt Securities

The District did not issue additional debt in 2012. However, on August 28, 2012, the District refunded its Variable Rate Demand Revenue Bonds, Series 2003 (which included an irrevocable letter of credit), in the amount of $11,715,000, through the issuance of its Refunding Revenue Bonds, Series 2012 in the amount of $10,040,000. The proceeds from the bonds were used to refund the Series 2003 Variable Rate Bonds, to fund the Reserve Fund for the Series 2012 Refunding Revenue Bonds and to pay expenses related to the issuance of the bonds.

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. Construction on Phase II is expected to be completed by September 2012.

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.

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 2012 and 2011 budgets during the last quarter of the 2011 and 2010 calendar years, respectively. There were no amendments made to the original budgets presented to the State of Colorado for the calendar years 2012 and 2011.

During 2012, net patient service revenue was $2,670,230 (4.5%) higher than budget, while operating expenses were $1,310,027 (2.2%) lower than budget. In 2011, net patient service revenue was $839,241 (1.5%) higher than budget, while operating expenses were $1,455,763 (2.6%) lower than budget.

Please see page 42 for the statement of budgeted and actual revenues and expenses for the year ended December 31, 2012.

Economic Factors and Next Year's Budget

During 2012 and 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 7.3% higher net patient service revenues for 2012 as compared to 2011. Throughout 2012, the District's management continued to support the cost saving initiatives implemented in 2011, which resulted in a smaller increase in operating expenses (2.3%) than the increase in revenues (7.3%). The total gain for 2012 increased as compared to 2011 by $6.2 million, caused primarily by the increase in philanthropic contributions for Phases III and IV of the Master Facilities Plan, and the previously mentioned increase in net patient service revenues.

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 the past three years were below 46 days. Net accounts receivable only increased by $801,637 (11%) despite growth of net patient service revenues of $4,194,502 during 2012. Unrestricted cash balances increased by $5,953,309 or 44% compared to 2011 levels.

In constructing the District's 2013 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 patient service revenues for 2013 are budgeted to be slightly higher (3.3% increase) when compared to 2012. Operating expenses are expected to increase by 8.8% over 2012 and philanthropic contributions are expected to increase by $11.3 million; generating an anticipated increase in net position for 2013 of $20.2 million, an increase of $4.5 million from 2012.

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 2012 and 2011 calendar years and to demonstrate the District's accountability for its management of the finances of the District. Questions about this report should be directed to 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, 2012 and 2011

Assets

	2012		2011	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Current Assets				
Cash and cash equivalents	$ 19,609,591	$ 135,409	$ 13,656,282	$ 111,627
Short-term investments	27,240,620	-	23,450,333	-
Patient accounts receivable, net	7,896,322	749,403	7,094,685	629,058
Contributions receivable	-	-	247,605	-
Other receivables	819,276	5,000	1,108,377	5,000
Inventories	1,807,588	165,199	1,817,687	141,660
Prepaid expenses	1,014,891	-	880,119	-
Total current assets	58,388,288	1,055,011	48,255,088	887,345
Noncurrent Cash and Investments				
Internally designated for capital acquisitions	10,617,992	-	18,758,172	-
Contributions receivable held by Aspen Community Foundation	2,147,384	-	-	-
Held by Aspen Community Foundation for capital acquisitions	1,947,842	-	-	-
Bond funds restricted for capital acquisitions	864,958	-	27,706,704	-
Held by trustee for debt service	2,372,552	-	2,441,273	-
	17,950,728	-	48,906,149	-
Capital Assets, Net	101,279,351	589,622	62,258,249	808,776
Other Assets				
Contributions receivable	-	-	324,780	-
Physician guarantees receivable	-	-	124,992	-
Investment in joint venture	153,960	-	130,666	-
Net pension asset	381,998	-	407,709	-
Other	937,623	-	1,018,305	-
	1,473,581	-	2,006,452	-
Total assets	$ 179,091,948	$ 1,644,633	$ 161,425,938	$ 1,696,121

Liabilities and Net Position

	2012		2011	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Current Liabilities				
Current maturities of long-term debt	$ 3,395,014	$ 38,278	$ 3,100,851	$ 36,338
Accounts payable	2,746,000	40,818	2,010,181	53,584
Accrued salaries, benefits and payroll taxes	2,324,823	-	2,138,850	-
Other accrued liabilities	1,238,695	311,309	1,097,502	141,737
Refunds payable	84,719	-	131,576	-
Unclaimed refunds payable	131,740	-	226,664	-
Construction payable	9,527,123	-	4,593,597	-
Estimated amounts due to third-party payers	129,543	-	808,241	-
Total current liabilities	19,577,657	390,405	14,107,462	231,659
Long-term Debt				
Bonds payable	64,670,303	-	67,189,738	-
Capital lease obligations	759,268	68,390	1,171,209	106,667
Note payable	-	-	546,281	-
	65,429,571	68,390	68,907,228	106,667
Total liabilities	85,007,228	458,795	83,014,690	338,326
Net Position				
Net investment in capital assets	33,319,724	-	17,956,874	-
Restricted - expendable for				
Debt service	2,372,552	-	2,441,273	-
Capital acquisitions	3,996,818	-	299,780	-
Specific operating activities	-	-	272,605	-
Reserved for minority interests	-	581,061	-	665,320
Unrestricted	54,395,626	604,777	57,440,716	692,475
Total net position	94,084,720	1,185,838	78,411,248	1,357,795
Total liabilities and net position	$ 179,091,948	$ 1,644,633	$ 161,425,938	$ 1,696,121

Aspen Valley Hospital District

Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2012 and 2011

	2012		2011	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Operating Revenues				
Net patient service revenue	$ 61,905,234	$ 4,828,583	$ 57,710,721	$ 4,181,676
Other	1,814,913	-	2,021,023	-
Total operating revenues	63,720,147	4,828,583	59,731,744	4,181,676
Operating Expenses				
Salaries and wages	23,457,999	636,129	22,824,088	607,868
Contract labor	1,208,438	-	1,128,449	-
Supplies and other	29,325,132	2,031,262	28,313,272	1,763,208
Depreciation and amortization	4,378,611	265,670	4,805,334	248,478
Total operating expenses	58,370,180	2,933,061	57,071,143	2,619,554
Operating Income	5,349,967	1,895,522	2,660,601	1,562,122
Nonoperating Revenues (Expenses)				
Ad valorem taxes	6,935,901	-	6,745,008	-
Investment income	124,566	21,931	354,420	11,028
Interest expense	(911,673)	-	(810,205)	-
Community assistance programs	(112,727)	-	(217,933)	-
Aspen Valley Hospital Foundation, net	(483,203)	-	-	-
Noncapital contributions	(2,084)	-	90,012	-
Gain on investment in joint venture	75,531	-	52,073	-
Loss on disposal of capital assets	(142,638)	-	(298,238)	-
Total nonoperating revenues	5,483,673	21,931	5,915,137	11,028
Excess of Revenues Over Expenses Before Capital Contributions, Provision for Uncollectible Capital Contributions and Member Distributions	10,833,640	1,917,453	8,575,738	1,573,150
Capital contributions	6,049,233	-	-	-
Provision for uncollectible capital contributions	(2,275,000)	-	-	-
Member distributions	1,065,599	(2,089,410)	867,000	(1,700,000)
Change in Net Position	15,673,472	(171,957)	9,442,738	(126,850)
Net Position, Beginning of Year	78,411,248	1,357,795	68,968,510	1,484,645
Net Position, End of Year	$ 94,084,720	$ 1,185,838	$ 78,411,248	$ 1,357,795

Aspen Valley Hospital District

Statements of Cash Flows

Years Ended December 31, 2012 and 2011

	2012		2011	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Operating Activities				
Receipts from and on behalf of patients	$ 60,283,118	$ 4,708,238	$ 58,300,027	$ 4,174,351
Payments to suppliers	(30,998,029)	(1,897,995)	(28,901,531)	(1,794,729)
Payments to employees	(23,246,315)	(636,129)	(22,674,745)	(607,868)
Other receipts (payments), net	984,309	-	3,048,265	-
Net cash provided by operating activities	7,023,083	2,174,114	9,772,016	1,771,754
Noncapital Financing Activities				
Ad valorem taxes	3,488,827	-	3,549,879	-
Community assistance programs	(141,212)	-	(112,100)	-
Aspen Valley Hospital Foundation, net	(483,203)	-	-	-
Noncapital contributions	188,548	-	247,657	-
Net cash provided by noncapital financing activities	3,052,960	-	3,685,436	-
Capital and Related Financing Activities				
Ad valorem taxes	3,581,002	-	3,250,759	-
Purchases of capital assets	(35,611,736)	(46,516)	(28,008,105)	(70,130)
Proceeds from sale of capital assets	11,302	-	29,250	-
Proceeds from issuance of bonds	10,615,486	-	-	-
Refunding of Series 2003 bonds	(10,715,000)	-	-	-
Principal payments on long-term debt	(4,031,754)	(36,337)	(3,196,176)	(12,371)
Interest payments on long-term debt	(911,673)	-	(810,205)	-
Capital contributions	2,010,397	-	288,493	-
Net cash used in capital and related financing activities	(35,051,976)	(82,853)	(28,445,984)	(82,501)
Investing Activities				
(Purchases) proceeds from sale of investments, net	2,402,051	-	(5,858,898)	-
Investment income	178,825	21,931	418,972	11,028
Member distributions	1,437,899	(2,089,410)	494,700	(1,700,000)
Net cash provided by (used in) investing activities	4,018,775	(2,067,479)	(4,945,226)	(1,688,972)
Increase (Decrease) in Cash and Cash Equivalents	(20,957,158)	23,782	(19,933,758)	281
Cash and Cash Equivalents, Beginning of Year	43,804,259	111,627	63,738,017	111,346
Cash and Cash Equivalents, End of Year	$ 22,847,101	$ 135,409	$ 43,804,259	$ 111,627

Aspen Valley Hospital District

Statements of Cash Flows (Continued)

Years Ended December 31, 2012 and 2011

	2012		2011	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Reconciliation of Cash and Cash Equivalents to the Balance Sheets				
Cash and cash equivalents	$ 19,609,591	$ 135,409	$ 13,656,282	$ 111,627
Bond funds restricted for capital acquisitions	864,958	-	27,706,704	-
Held by trustee for debt service	2,372,552	-	2,441,273	-
Total cash and cash equivalents	$ 22,847,101	$ 135,409	$ 43,804,259	$ 111,627
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating income	$ 5,349,967	$ 1,895,522	$ 2,660,601	$ 1,562,122
Depreciation and amortization	4,378,611	265,670	4,805,334	248,478
Provision for uncollectible accounts	2,150,432	-	2,580,949	-
Change in operating assets and liabilities				
Patient accounts receivable	(2,952,069)	(120,345)	(2,224,041)	(7,325)
Contributions receivable	(1,795)	-	154,417	-
Other receivables	(804,230)	-	855,544	-
Inventories	10,099	(23,539)	(191,621)	(24,881)
Prepaid expenses	(134,772)	-	195,556	-
Net pension asset	25,711	-	26,265	-
Other assets	(24,579)	-	17,281	-
Accounts payable	84,311	(12,766)	548,151	(22,284)
Accrued salaries, benefits and payroll taxes	185,973	-	123,078	-
Other accrued liabilities	(424,097)	169,572	(11,896)	15,644
Refunds payable	(46,857)	-	35,225	-
Unclaimed refunds payable	(94,924)	-	(91,068)	-
Estimated amounts due to and due from third-party payers	(678,698)	-	288,241	-
Net cash provided by operating activities	$ 7,023,083	$ 2,174,114	$ 9,772,016	$ 1,771,754
Supplemental Cash Flows Information				
Capital lease obligations for equipment	$ 947,774	$ -	$ 1,284,173	$ 155,376
Capital asset acquisitions included in current liabilities	$ 11,653,320	$ -	$ 4,390,958	$ -
Member distributions included in accounts receivable	$ (372,300)	$ -	$ 372,300	$ -

Aspen Valley Hospital District
Statements of Fiduciary Net Position
Fiduciary Funds
December 31, 2012 and 2011

	2012	2011
Assets		
Investments	$ 16,174,659	$ 13,432,989
Net Position - Held for Pension Benefits	$ 16,174,659	$ 13,432,989

Aspen Valley Hospital District
Statements of Changes in Fiduciary Net Position
Fiduciary Funds
Years Ended December 31, 2012 and 2011

	2012	2011
Additions		
Contributions for employee benefits	$ 1,522,841	$ 1,438,808
Investment earnings	1,732,569	118,221
Total additions	3,255,410	1,557,029
Deductions		
Benefits	513,740	613,521
Total deductions	513,740	613,521
Change in Net Position	2,741,670	943,508
Net Position, Beginning of Year	13,432,989	12,489,481
Net Position, End of Year	$ 16,174,659	$ 13,432,989

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.

Aspen Valley Hospital Foundation (the Foundation) is a legally separate component unit of the Hospital. The Foundation's primary function is to raise and hold funds to promote and enhance health care related services to support the programs of the Hospital. As the Foundation was established for the sole purpose of the District and the District has a controlling interest in the Foundation, the Foundation is considered to be a component unit of the District and is included in the financial statements of the District using blended presentation.

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.

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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net positions are available.

The District's government-wide financial statements (balance sheets and statements of revenues, expenses and changes in net position 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.

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, 2012 and 2011, 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 uncollectible accounts 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:

	2012	2011
Total interest expense incurred on borrowings for project	$ 2,299,964	$ 2,348,300
Total interest income from investment of proceeds of borrowings for project	761,436	857,671
Net interest cost capitalized	$ 1,538,528	$ 1,490,629
Interest capitalized	$ 2,299,964	$ 2,348,300
Interest charged to expense	911,673	810,205
	$ 3,211,637	$ 3,158,505

Construction contracts of approximately $69,994,000 exist for the Hospital expansion. At December 31, 2012, the remaining commitment on these contracts is approximately $15,562,051.

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 Position

Net position of the District is classified in four components. Net investment in capital 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 position is 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 position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets 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 $3,024,386 and $3,175,573 for 2012 and 2011, 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 2012 and 2011. 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 bond 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 (CAHs) 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, 2012 and 2011.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 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:

	2012	2011
FDIC insured	$ 17,233,155	$ 39,948,827
Collateralized by securities held by the pledging financial institution's trust department or agent in other than the District's name	43,700,948	18,598,330
Total	$ 60,934,103	$ 58,547,157
Carrying value on the balance sheets at December 31	$ 58,547,578	$ 56,933,687

The carrying value on the balance sheets at December 31, 2012 and 2011, includes noncurrent cash and investments of $11,700,167 and $19,829,872, 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, 2012 and 2011, investments amounted to $18,329,994 and $42,509,266, 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. All investments held by the Aspen Community Foundation are invested in money markets.

Fiduciary fund assets are invested in pooled separate accounts. None of the funds are subject to concentration of credit risk, custodial credit risk or foreign currency risk.

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:

	2012	2011
Carrying value		
Deposits	$ 58,547,578	$ 56,933,687
Investments	20,277,836	42,509,266
Cash on hand and change funds	2,800	2,800
	$ 78,828,214	$ 99,445,753
Included in the following balance sheet captions		
Cash and cash equivalents	$ 19,609,591	$ 13,656,282
Short-term investments	27,240,620	23,450,333
Internally designated for capital acquisitions	10,617,992	18,758,172
Held by Aspen Community Foundation	1,947,842	-
Bond funds restricted for capital acquisitions	864,958	27,706,704
Held by trustee under bond agreement	2,372,552	2,441,273
Held by trustee under pension plan agreement (fiduciary fund assets)	16,174,659	13,432,989
	$ 78,828,214	$ 99,445,753

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:

	2012	2011
Patient accounts receivable, gross	$ 9,960,876	$ 9,588,848
Allowance for uncollectible accounts	(782,272)	(712,723)
Allowance for contractual adjustments	(1,282,282)	(1,781,440)
Patient accounts receivable, net	$ 7,896,322	$ 7,094,685

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

	2012	2011
Medicare	21%	14%
Medicaid	1%	2%
Blue Cross	13%	19%
Other third-party payers	63%	63%
Self-pay	2%	2%
	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 26% and 25% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2012 and 2011, 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:

	2012	2011
Gross patient service revenue	$ 81,815,079	$ 78,253,969
Less		
Medicare contractual adjustments	7,130,043	6,910,380
Medicaid contractual adjustments	199,639	323,359
Other contractuals and adjustments	7,405,345	7,552,987
Charity care	3,024,386	3,175,573
Provision for uncollectible accounts	2,150,432	2,580,949
Net patient service revenue	$ 61,905,234	$ 57,710,721

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, 2012 and 2011. The carrying amounts of the physician guarantee contracts are included in the balance sheets as follows:

	2012	2011
Other receivables	$ 124,992	$ 48,954
Physician gurantees receivable	-	124,992
	$ 124,992	$ 173,946

Note 6: Capital Assets

Capital assets activity for the years ended December 31 was:

	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 267,057	$ -	$ -	$ -	$ 267,057
Land improvements	881,962	-	(549,960)	-	332,002
Buildings	13,937,536	-	(75,079)	-	13,862,457
Fixed equipment	4,179,294	-	(49,781)	-	4,129,513
Moveable equipment	29,492,801	3,922,011	(2,663,549)	-	30,751,263
Employee housing	8,626,246	-	-	-	8,626,246
Construction in progress	38,010,700	39,539,420	-	-	77,550,120
	95,395,596	43,461,431	(3,338,369)	-	135,518,658
Less accumulated depreciation					
Land improvements	533,190	24,874	(537,887)	89,328	109,505
Buildings	8,218,681	581,578	(39,736)	(540,447)	8,220,076
Fixed equipment	743,626	343,798	(46,487)	407,047	1,447,984
Moveable equipment	20,156,504	3,067,063	(2,555,061)	-	20,668,506
Employee housing	3,485,346	263,818	-	44,072	3,793,236
	33,137,347	4,281,131	(3,179,171)	-	34,239,307
Capital assets, net	$ 62,258,249	$ 39,180,300	$ (159,198)	$ -	$101,279,351

	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

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 for the years ended December 31, 2012 and 2011, 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 employee health claims liability during 2012 and 2011 is summarized as follows:

	2012	2011
Unpaid claims at beginning of year	$ 589,635	$ 648,751
Total incurred claims and claim adjustment expenses	3,906,634	3,391,673
Total payments	(3,818,624)	(3,450,789)
Total unpaid claims and claim adjustment expenses at end of year	$ 677,645	$ 589,635

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:

	2012					
	Beginning Balance	Additions	Payments	Ending Balance	Amounts Due Within One Year	Long-term Portion
2003 revenue bonds payable	$ 10,715,000	$ -	$ (10,715,000)	$ -	$ -	$ -
2007 revenue bonds payable	11,095,000	-	(520,000)	10,575,000	545,000	10,030,000
2010 general obligation bonds payable	48,050,000	-	(1,925,000)	46,125,000	1,965,000	44,160,000
2012 revenue bonds payable	-	10,040,000	-	10,040,000	-	10,040,000
Note payable	562,354	-	(16,936)	545,418	545,418	-
Capital leases	1,685,867	947,774	(1,565,510)	1,068,131	308,863	759,268
	72,108,221	10,987,774	(14,742,446)	68,353,549	3,364,281	64,989,268
Unamortized premium on Series 2012 bonds	-	770,251	(5,600)	764,651	42,895	721,756
Unamortized premium on Series 2010 bonds	463,270	-	(37,403)	425,867	36,779	389,088
Unamortized premium on Series 2007 bonds	161,662	-	(17,785)	143,877	16,975	126,902
Unamortized loss on refunding 2003 bonds	-	(194,770)	1,416	(193,354)	(10,847)	(182,507)
Unamortized loss on refunding 2000 and 2001 bonds	(725,074)	-	55,069	(670,005)	(55,069)	(614,936)
	$ 72,008,079	$ 11,563,255	$ (14,746,749)	$ 68,824,585	$ 3,395,014	$ 65,429,571

	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 general obligation 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

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, 2012 and 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.

Revenue Bonds Payable – Series 2012

Hospital Refunding Revenue Bonds – Series 2012 due 2025 payable in increasing varying annual installments through April 15, 2033, bearing interest rates of 2.125% to 3.75% payable semi-annually. The Series 2012 bonds are issued 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 2012 Refunding Revenue Bonds, the District defeased its outstanding Series 2003 bonds. Proceeds from the bonds used to pay the principal, interest and redemption premiums on the defeased bonds on September 4, 2012. This advance refunding transaction resulted in an extinguishment of debt since the District was legally released from its obligation on the Series 2003 bonds at the time of defeasance. There are no Series 2003 bonds outstanding which have not been called as of December 31, 2012.

The advance refunding of the Series 2003 bonds resulted in an overall future economic benefit of approximately $467,000 for the District. However, an accounting loss of $194,770 on the extinguishment of the long-term debt was recorded in 2012. 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 2012 bonds.

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, 2012 and 2011, was 2.04% and 2.05%, respectively.

Capital Lease Obligations

The District has capitalized lease obligations at varying rates of imputed interest maturing between 2012 and 2017 that are collateralized by leased equipment.

The debt service requirements as of December 31, 2012, are as follows:

	General Obligation and Revenue Bonds Payable		Note Payable		Capital Leases	
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
Year Ending December 31						
2013	$ 2,510,000	$ 3,274,505	$ 545,418	$ 13,090	$ 308,863	$ 7,750
2014	2,595,000	3,196,417	-	-	213,236	4,995
2015	2,660,000	3,130,861	-	-	211,779	3,052
2016	2,750,000	3,039,210	-	-	207,000	1,277
2017	2,920,000	2,931,836	-	-	127,253	158
2018-2022	16,035,000	12,724,380	-	-	-	-
2023-2027	19,280,000	8,347,400	-	-	-	-
2028-2032	16,450,000	2,616,016	-	-	-	-
2033-2037	1,540,000	77,000	-	-	-	-
	$ 66,740,000	$39,337,625	$ 545,418	$ 13,090	$ 1,068,131	$ 17,232

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

	2012	**2011**
Major moveable equipment	$ 4,210,618	$ 3,261,303
Less accumulated depreciation	2,333,846	1,635,429
	$ 1,876,772	$ 1,625,874

Note 11: Operating Leases

The District leases various facility spaces and equipment under operating leases expiring through 2017. Future five-year minimum lease payments under these noncancelable leases at December 31, 2012, are:

2013	$ 458,126
2014	355,506
2015	308,045
2016	268,941
2017	179,166
Future minimum lease payments	$ 1,569,784

Rental expense for all operating leases at December 31, 2012 and 2011, was $954,187 and $1,159,864, respectively.

Note 12: The Aspen Valley Medical Foundation, Limited

The Aspen Valley Medical Foundation, Limited (AVMF) is an independent non-profit corporation incorporated in 1974. AVMF's primary objective is the betterment of health care in the Roaring Fork Valley of Colorado. Effective June 15, 2012, the District and AVMF severed its relationship. Prior to June 15, 2012, the District received contribution pledges from AVMF for operations and capital-related items. For the year ended December 31, 2011, the District received contribution pledges of $62,565 from AVMF. Contribution payments received from AVMF during 2012 and 2011 totaled $161,980 and $502,475, respectively. Due to the uncertainty surrounding the collections of contributions receivable from AVMF due to the severance of the relationship, the District wrote-off $410,405 subsequent to June 15, 2012.

Note 13: Aspen Community Foundation

The Aspen Community Foundation (ACF) is an independent non-profit corporation incorporated in 1980. ACF's primary objective is to improve the quality of life in Aspen and the communities of the greater Roaring Fork and Colorado River valleys. The Aspen Valley Hospital Fund was established with ACF for the purpose of receiving contributions that are to benefit the District. Total contributions received and held by ACF on behalf of the District during 2012 were $1,947,842. All contributions received by ACF during 2012 are classified as capital contributions as the contributions are to be used to support the District's construction project. Contributions receivable maintained by ACF on behalf of the District consisted of the following at December 31:

	2012
Due within one year	$ 1,548,983
Due within one to four years	3,150,000
	4,698,983
Less	
Allowance for uncollectible contributions	2,275,000
Unamortized discount	276,599
	$ 2,147,384

Note 14: 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 $1,645,639 and $1,530,670 for the years ended December 31, 2012 and 2011, 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 $362,414 and $356,390 for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, was as follows:

	2012	2011
Annual required contribution	$ 1,522,841	$ 1,438,808
Interest on net pension asset	(28,540)	(32,548)
Adjustment to annual required contribution	54,251	58,813
Annual pension cost	1,548,552	1,465,073
Contributions made	(1,522,841)	(1,438,808)
Decrease in net pension asset	25,711	26,265
Net pension asset at beginning of year	407,709	433,974
Net pension asset at end of year	$ 381,998	$ 407,709

The annual required contribution for the years ended December 31, 2012 and 2011, was determined as part of the January 1, 2012 and 2011, actuarial valuation using the unit credit cost method, respectively. The actuarial assumptions for the years ended December 31 are as follows:

	2012	2011
Long-term investment rate of return (net of administrative expenses)	7.00%	7.50%
Projected salary increases after ten years	5.00%	5.50%
Inflation component per year	2.25%	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, 2012 and 2011, is 10 years.

As of January 1, 2012, the most recent actuarial valuation dated, the Plan was 87% funded. The actuarial accrued liability for benefits was $15,464,139 and actuarial value of assets was $13,432,989 resulting in an unfunded actuarial accrued liability (UAAL) of $2,031,150. The covered payroll was $20,262,974, and the ratio of the UAAL to the covered payroll was 10%.

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
2010	$ 1,506,636	100%	$ 433,974
2011	1,465,073	98%	407,709
2012	1,548,552	98%	381,998

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 15: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be different than rates paid under current health insurance products.

Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional. The state of Colorado has currently indicated it will participate in the Medicaid expansion program.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot be currently estimated, it is possible that it will have a negative impact on the District's net patient service revenue. Additionally, it is possible that the District will experience payment delays and other operational challenges during PPACA's implementation.

Note 16: 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 17: Subsequent Events

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

Required 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	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(a-b)	(a/b)	(c)	(a-b/c)
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%
1/1/12	13,432,989	15,464,139	(2,031,150)	87%	20,262,974	-10%

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
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%
2012	1,522,841	100%

Supplementary Information

Aspen Valley Hospital District

Statement of Budgeted and Actual Revenues and Expenses

Year Ended December 31, 2012

	Budgeted Amount Original	Actual	Favorable (Unfavorable) Variance
Operating Revenues			
Net patient service revenue	$ 59,235,004	$ 61,905,234	$ 2,670,230
Other	1,717,778	1,814,913	97,135
Total operating revenues	60,952,782	63,720,147	2,767,365
Operating Expenses	59,680,207	58,370,180	1,310,027
Operating Income	1,272,575	5,349,967	4,077,392
Nonoperating Revenues (Expenses)			
Ad valorem taxes	6,924,700	6,935,901	11,201
Investment income	140,500	124,566	(15,934)
Interest expense	(950,000)	(911,673)	38,327
Community assistance programs	(330,000)	(112,727)	217,273
Aspen Valley Hospital Foundation, net	-	(483,203)	(483,203)
Noncapital contributions	745,000	(2,084)	(747,084)
Gain on investment in joint venture	54,680	75,531	20,851
Loss on disposal of capital assets	-	(142,638)	(142,638)
Total nonoperating revenues (expenses)	6,584,880	5,483,673	(1,101,207)
Excess of Revenues Over Expenses Before Capital Contributions, Provision for Uncollectible Contributions and Member Distributions	7,857,455	10,833,640	2,976,185
Capital contributions	-	6,049,233	6,049,233
Provision for uncollectible capital contributions	-	(2,275,000)	(2,275,000)
Member distributions	895,791	1,065,599	169,808
Change in Net Position	$ 8,753,246	$ 15,673,472	$ 6,920,226

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 2012.

Aspen Valley Hospital District

Combining Statement of Balance Sheets – Component Units

December 31, 2012

	Midvalley Ambulatory Surgery Center, LLC	Midvalley Imaging Center, LLC	Total
Assets			
Current Assets			
Cash and cash equivalents	$ 57,944	$ 77,465	$ 135,409
Patient accounts receivable, net	589,239	160,164	749,403
Other receivables	-	5,000	5,000
Inventories	165,199	-	165,199
Total current assets	812,382	242,629	1,055,011
Capital Assets, Net	235,889	353,733	589,622
Total assets	$ 1,048,271	$ 596,362	$ 1,644,633
Liabilities and Net Position			
Current Liabilities			
Current maturities of long-term debt	$ 38,278	$ -	$ 38,278
Accounts payable	19,726	21,092	40,818
Other accrued liabilities	318,358	(7,049)	311,309
Total current liabilities	376,362	14,043	390,405
Long-term Debt	68,390	-	68,390
Net Position			
Reserved for minority interests	295,724	285,336	581,060
Unrestricted	307,795	296,983	604,778
Total net position	603,519	582,319	1,185,838
Total liabilities and net position	$ 1,048,271	$ 596,362	$ 1,644,633

Aspen Valley Hospital District

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

Year Ended December 31, 2012

	Midvalley Ambulatory Surgery Center, LLC	Midvalley Imaging Center, LLC	Total
Operating Revenues			
Net patient service revenue	$ 4,059,632	$ 768,951	$ 4,828,583
Operating Expenses			
Salaries and wages	552,962	83,167	636,129
Supplies and other	1,706,172	325,090	2,031,262
Depreciation and amortization	92,892	172,778	265,670
Total operating expenses	2,352,026	581,035	2,933,061
Operating Income	1,707,606	187,916	1,895,522
Nonoperating Revenues			
Investment income	21,689	242	21,931
Excess of Revenues Over Expenses Before Member Distributions	1,729,295	188,158	1,917,453
Member distributions	(1,805,202)	(284,208)	(2,089,410)
Change in Net Position	(75,907)	(96,050)	(171,957)
Net Position, Beginning of Year	679,426	678,369	1,357,795
Net Position, End of Year	$ 603,519	$ 582,319	$ 1,185,838

Aspen Valley Hospital District

Combining Statement of Cash Flows – Component Units

Year Ended December 31, 2012

	Midvalley Ambulatory Surgery Center, LLC	Midvalley Imaging Center, LLC	Total
Operating Activities			
Receipts from and on behalf of patients	$ 3,968,345	$ 739,893	$ 4,708,238
Payments to suppliers	(1,574,724)	(323,271)	(1,897,995)
Payments to employees	(552,962)	(83,167)	(636,129)
Net cash provided by operating activities	1,840,659	333,455	2,174,114
Capital and Related Financing Activities			
Purchases of capital assets	(46,516)	-	(46,516)
Principal payments on long-term debt	(36,337)	-	(36,337)
Net cash used in capital and related financing activities	(82,853)	-	(82,853)
Investing Activities			
Investment income	21,689	242	21,931
Member distributions	(1,805,202)	(284,208)	(2,089,410)
Net cash used in investing activities	(1,783,513)	(283,966)	(2,067,479)
Increase (Decrease) in Cash and Cash Equivalents	(25,707)	49,489	23,782
Cash and Cash Equivalents, Beginning of Year	83,651	27,976	111,627
Cash and Cash Equivalents, End of Year	$ 57,944	$ 77,465	$ 135,409
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	$ 1,707,606	$ 187,916	$ 1,895,522
Depreciation and amortization	92,892	172,778	265,670
Change in operating assets and liabilities			
Patient accounts receivable	(91,287)	(29,058)	(120,345)
Inventories	(23,539)	-	(23,539)
Accounts payable	(21,634)	8,868	(12,766)
Other accrued liabilities	176,621	(7,049)	169,572
Net cash provided by operating activities	$ 1,840,659	$ 333,455	$ 2,174,114