

Aspen Valley Hospital District

Accountants' Report and Financial Statements

December 31, 2010 and 2009



Aspen Valley Hospital District
December 31, 2010 and 2009

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information	1
Management's Discussion and Analysis	3
Financial Statements	
Balance Sheets.....	11
Statements of Revenues, Expenses and Changes in Net Assets.....	12
Statements of Cash Flows	13
Statements of Fiduciary Net Assets – Fiduciary Funds.....	15
Statements of Changes in Fiduciary Net Assets – Fiduciary Funds.....	16
Notes to Financial Statements	17
Supplementary Information	
Schedule of Funding Progress – Cash Balance Retirement Plan.....	35
Schedule of Employer Contributions – Cash Balance Retirement Plan.....	36
Statement of Budgeted and Actual Revenues and Expenses.....	37
Combining Statement of Balance Sheets – Component Units	38
Combining Statement of Revenues, Expenses and Changes in Net Assets – Component Units	39
Combining Statement of Cash Flows – Component Units.....	40

Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Aspen Valley Hospital District
Aspen, Colorado

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units and the aggregate remaining fund information of the Aspen Valley Hospital District (District) as of December 31, 2010, and for the years then ended, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Aspen Valley Hospital District as of and for the year ended December 31, 2009, were audited by other accountants whose report dated May 4, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aspen Valley Hospital District as of December 31, 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and pension information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements as of and for the year ended December 31, 2010, taken as a whole. The accompanying supplementary information as of and for the year ended December 31, 2010, as 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements as of and the year ended December 31, 2010, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The information as of and for the year ended December 31, 2009, was audited by other accountants whose report dated May 4, 2010, expressed an unqualified opinion on such information in relation to the basic financial statements as of and for the year ended December 31, 2009, taken as a whole.

BKD, LLP

March 25, 2011

Aspen Valley Hospital District

Management's Discussion and Analysis

Years Ended December 31, 2010 and 2009

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, 2010 and 2009.

The financial statements are broken into 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, 2010 and 2009.
- 2. Statements of Revenues, Expenses, and Changes in Net Assets:** reports the cumulative activity of providing health care services and the expenses related to such activity for the years ended December 31, 2010 and 2009.
- 3. Statements of Cash Flows:** outlines the cash inflows and outflows related to the activity of providing health care services for the years ended December 31, 2010 and 2009.
- 4. Notes to the Financial Statements:** provides explanation and clarification on specific items within the previously mentioned financial statements.

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

Balance Sheets

The District's total assets at the end of 2010 were \$148,645,528 compared to \$91,964,540 for 2009 and \$84,462,148 at the end of 2008. The \$56,680,988 increase from 2009 total assets is attributable to the Series 2010 Bond issuance in the amount of \$50,000,000, increase in cash and cash equivalents, patients accounts receivable, contributions and other receivables, prepaid expenses, other assets; and decreases in capital assets. The Statement of Cash Flows on Page 14, included \$50,109,327 of the Series 2010 Bond Proceeds in the 2010 column that were not yet invested as of the end of the year. The increase of \$7,502,392 from 2008 and \$2,843,678 from 2007 is attributable to increases in cash, patient accounts receivable and prepaid expenses; and decreases in capital assets and other assets.

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

At December 31, 2009, assets consisted primarily of cash and cash equivalents of \$8,186,384, net patient accounts receivable of \$6,763,442, short-term investments of \$17,415,969, assets internally designated for capital acquisitions of \$18,123,689, assets held by trustee for debt service of \$2,464,103 and net capital assets of \$32,412,333. The \$50,109,327 increase in bond funds restricted for capital acquisitions is due to two General Obligation Bond Issuances, Series 2010A Tax-exempt Bonds in the amount of \$12,045,000 and Series 2010B Taxable Direct Pay Build America Bonds in the amount of \$37,955,000. The bonds issued constitute general obligations of the District. All the taxable property located in the district is subject to the levy of an ad valorem tax to pay the principal, interest and premium on the bonds without limitation as to the rate and in an amount sufficient to pay the Bonds when due. The proceeds of the bonds will be 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.

Comparable asset balances at December 31, 2008, consisted primarily of cash and cash equivalents of \$34,381,759, net patient accounts receivable of \$6,058,285, short-term investments of \$1,419,420, assets held by trustee for debt service of \$2,382,932 and net capital assets of \$34,008,046.

The continued stabilization in net patient accounts receivable and the increase in cash and cash equivalents during 2010, 2009 and 2008 resulted from the reliable revenue cycle management of Computer Sciences Corporation (formerly First Consulting Group) and Firstsource (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 whose use are limited internally designated for capital acquisitions for 2010, 2009 and 2008.

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

The District's total liabilities at December 31, 2009, were \$29,815,197; noting accounts payable of \$2,338,034, accrued liabilities of \$2,368,092, patient and insurance refunds payable of \$58,768, unclaimed refunds payable of \$416,106, long-term revenue bonds payable of \$21,835,085, long-term capital lease obligations of \$1,009,743 and long-term notes payable of \$579,091.

At December 31, 2008, total liabilities were \$31,658,309 consisting primarily of accounts payable of \$1,908,941, accrued liabilities of \$2,335,217, patient and insurance refunds payable of \$249,712, unclaimed refunds payable of \$1,024,130, due to Medicare of \$352,069, long-term revenue bonds payable of \$22,403,621, long-term capital lease obligations of \$1,580,508 and long-term notes payable of \$592,045.

In 2010, total liabilities increased \$49,861,821 marked by an increase in bonds payable. The increase in this area was attributable to the Series 2010A and 2010B General Obligation Bonds issued on December 15, 2010, in the amount of \$50,000,000 in the aggregate. The proceeds of the Bond Funds will be utilized to modernize and expand the District facilities to meet contemporary standards for treatment and technology, enhance the quality, safety and privacy of patient care, and to reconfigure the District facilities to meet the present and future health care needs of the community. On July 12, 2010, the city of Aspen approved the District's Master Facility Plan Phase II Expansion and Renovation Project. The project's construction began on December 1, 2010, and it is estimated to last for approximately 28

months. The estimated cost of the project is approximately \$75,500,000, with a portion of the project to be funded with proceeds of the above bonds and the remainder with the District's funds and/or private contributions. The project is expected to expand the facility by 62,200 square feet, while renovating another 26,330 square feet, to create an additional 15,500 square feet in employee housing units to provide an additional 18 units and to create a new three-level parking garage providing 235 parking spaces. Increases were also noted in accrued liabilities, refunds payable, construction payable and estimated amounts due to third-party payers. Decreases were noted in unclaimed refunds payable, capital lease obligations and notes payable.

The \$1,843,112 decrease in total liabilities for 2009 was attributable to the reduction in unclaimed refunds payable. The reduction in this area was attributable to the re-evaluation of the recorded refunds to ensure proper classification and insurance adjudication of patient accounts. The evaluation showed \$664,458 of recorded refunds were adjudicated properly, and thus, not payable. The \$0 was recognized as income in 2009. Decreases were also noted in long-term debt, accrued liabilities, due to Medicare and patient and insurance refunds payable. There was an increase in accounts payable attributed to a single invoice received after the year-end accounts payable process.

The District reported unrestricted net assets of \$55,209,798 in 2010, \$50,784,050 in 2009, and \$40,919,514 in 2008. The increase in total net assets of \$6,819,167 from 2009, \$9,345,504 from 2008 and \$5,502,529 from 2007 represent net income reported by the District for each year. Net assets represent the cumulative changes in gains and losses since the inception of the entity.

Statements of Revenues, Expenses and Changes in Net Assets

Patient Service Revenues

The District classifies revenues as operating and non-operating revenues. Operating revenues consist of net patient service revenues and other revenues. Net patient service revenues result from direct patient care.

Net patient service revenues increased \$1,469,833 or 2.6% in 2010 compared to \$2,363,414 or 4.4% in 2009. Net patient service revenue for 2010 in total was \$57,313,190 compared to \$55,843,357 in 2009 and \$53,479,943 in 2008. The slower rate of growth in net patient service revenue for both 2010 and 2009 is directly attributable to the downturn in economic conditions experienced around the country.

The District's outpatient service revenues continue to exceed the inpatient service revenues, with 70% of the District's 2010 and 2009 patient service revenue generated by outpatient services compared to 67% for 2008. 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, 66% during 2010, 67% during 2009 and 2008. In addition, the District derived approximately 22.5% of gross revenues from Medicare in 2010 and 2009, up .50% from 2008. 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 2010, the District reclassified \$340,362 of fees received from the Aspen Ambulance District for management of its operations to other operating revenues. Comparably, fees received by the District

from the Aspen Ambulance District in 2009 were \$377,434. The \$124,663 decrease in other operating revenues from 2009 is 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. In 2009, other operating revenues had an increase of \$257,442. The increase for 2009 was attributable to increases in cafeteria sales and rental income from employee housing.

Nonoperating revenues and expenses are comprised of ad valorem taxes, investment income, interest expense, community assistance programs, noncapital contributions, gain or loss on investment in joint venture and gain or loss on disposal of capital assets. Nonoperating revenues and expenses for 2010 were \$3,425,226 compared to \$4,257,617 in 2009 (adjusted per above notes) and \$2,886,712 for 2008. The \$832,391 decrease from 2009 in nonoperating revenues and expenses were attributable to a decrease in noncapital contributions of \$838,969, an increase of \$9,192 in investment income, a decrease in interest expense of \$30,510, an increase in gain on investment in joint venture of \$9,064, an increase in community assistance programs of \$21,066. Gains (loss) on disposal of capital assets decreased \$21,123 over 2009 data. The District signed an agreement with Mountain Family Health Centers to provide it with financial support to cover its cost of providing health care services to the indigent population residing between Aspen and El Jebel. The expenses related to this program are reflected under community assistance programs. The \$1,370,905 increase in nonoperating revenues for 2009 was primarily due to a \$791,989 increase in noncapital contributions, \$131,018 increase in investment income, \$277,928 increase in gain (loss) on disposal of capital assets, \$93,283 increase in ad valorem taxes, \$23,247 decrease in gain on investment in joint venture, \$85,765 increase in community assistance programs and a decrease of \$185,699 in interest expense.

Expenses

In 2010, operating expenses increased \$3,445,291 from 2009 reported data. Increases of \$1,086,209 were attributable to salaries and wages, \$233,788 from contract labor, \$2,103,584 from supplies and other and \$21,710 from depreciation and amortization. Within the supplies and other increase, there was a decrease in patient care supplies of \$118,332, maintenance and utilities had an increase of \$262,840, employee benefits increased by \$1,013,100 and miscellaneous expense increased by \$945,976. 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 \$675,559 (which are offset by a reduction on Medicaid contractuals of \$730,921). Such provider fees are being reported within the supplies and other category. Operating expenses increased \$1,161,915 in 2009. This increase was attributed mainly to a salaries and wages increase of \$809,783, a decrease in contract labor of \$1,152,126, an increase in supplies and other of \$1,133,258 and an increase of \$371,000 in depreciation and amortization. In 2009, a contingency plan of operations was instituted to hold full-time equivalents and operational expense growth to lower than budgeted numbers. Operating expenses increased \$4,869,213 in 2008. Instrumental to this increase was salaries and wages contributing a \$1,638,738 increase over 2007. In 2008, the District experienced growth in full-time equivalents needed to maintain current service line demands. With this growth, key executive and managerial positions were in a state of transition. This caused \$636,447 of additional expense in the contract labor line to cover unexpected usage of agency personnel in clinical departments as well as in key administrative positions. The supplies and other section of operating expenses contributed \$1,704,587 towards the increase as well.

Bad Debt Expense

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

The primary collection risks are related to patients' payment portions not covered by their primary insurance (deductibles and co-payments). The District estimated the bad debt expense 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 2010, the District reported bad debt expense of \$2,272,739, compared to \$2,046,383 for 2009 and \$2,938,033 for 2008. The marked decrease in bad debt expense for 2010 and 2009 compared to 2008 are directly related to Computer Sciences Corporation (formerly First Consulting Group) and Firstsource's (formerly MedAssist) analysis, recommendations for modification and implementation of improved billing and collection processes. Bad debt expense 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 were \$2,420,822 or 2.2% of gross patient service revenue, compared to \$2,199,117 or 3.0% of gross patient service revenue for 2009, and \$2,624,014 or 3.7% of gross patient service revenue for 2008.

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, 2010, 2009 and 2008:

Cash Flows	2010	2009	2008
Operating activities	\$ 4,848,747	\$ 6,966,606	\$ 6,230,051
Noncapital financing activities	3,465,172	4,325,206	3,525,699
Capital and related financing activities	43,192,758	(4,864,013)	(9,786,832)
Investing activities	<u>1,580,853</u>	<u>(32,542,003)</u>	<u>790,328</u>
Net increase (decrease) in cash	<u>\$ 53,087,530</u>	<u>\$ (26,114,204)</u>	<u>\$ 759,246</u>

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

Noncapital financing reflects a reduction in cash flow from 2009 of \$860,034 from noncapital contributions. During 2010, the District refrained from requesting grants from Aspen Valley Medical Foundation, Limited in order to allow the Foundation to focus its efforts in the Master Facilities Plan Fund Drive. The \$799,507 increase in noncapital financing for 2009 was attributed to additional ad valorem taxes of \$93,283, additional community assistance programs of \$85,765 (a reduction in cash) and additional noncapital contributions of \$791,989. During 2009, noncapital contributions were granted to the District by the Foundation for the start-up operational costs related to Quality Health Network's (QHN) medical health record product. The \$564,379 increase of noncapital financing for 2008, was attributable to the increase in assessed property values in Pitkin County of \$580,001 from 2007 to 2008, and a \$15,622 reduction in noncapital contributions made to the District.

In 2010, cash flow activities used in capital and related financing increased by \$48,056,771. The main driver in this area was the issuance of the Series 2010 Bonds dated December 15, 2010. In addition, the District increased its capital assets spending by \$2,396,369 as compared to 2009. Capital and related financing decreased in 2009 by \$4,922,819, primarily due to decreased purchases of capital assets. The change in capital and related financing for the 2008 year totaled \$1,731,433 primarily caused by the decrease in sale of assets and capital contributions.

Investing activities reflect the District's smallest inflow of cash in 2010. The District's purchases of investments decreased by \$33,322,497 as the District continued to hold the investments purchased during 2009. Such investments generated additional interest income of \$372,511 as compared to 2009. During 2010, the District increased its 80% ownership in Snowmass Clinic Associates, LLP by acquiring the remaining 20% ownership from Orthopaedic Associates, PC. As a result, the investing activities reflect an increase in cash flows of \$313,799 representing the equity transfer resulting from this transaction. Investing activities posted a \$33,332,331 decrease in cash flow over 2008 due to increased purchases of investments totaling \$34,061,463 (decrease in cash), decrease in investment income of \$162,858 and increase in member distributions of \$258,468.

Outstanding Debt Securities

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

The District did not issue additional debt in 2009 or 2008. On February 12, 2007, the outstanding Series 2000 and 2001 bonds were defeased with the issuance of Hospital Refunding Bonds – Series 2007. Proceeds from the bonds were used to purchase securities that were deposited in trust under an escrow agreement sufficient to pay future principal and interest and redemption premiums on the defeased bonds.

On October 15, 2003, the District issued Revenue Bonds in the amount of \$11,715,000, with an irrevocable letter of credit. Pursuant to the issuance of the Revenue Bonds, the District signed a Reimbursement Agreement, which contained covenants that were met by the District during the calendar years 2010, 2009 and 2008.

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 2010 and 2009 budgets during the last quarter of the 2009 and 2008 calendar years, respectively. There were no amendments made to the original budgets presented to the state of Colorado for the calendar years 2010 and 2009.

During 2010, net patient service revenue was \$3,569,799 (6.6%) higher than budget, while operating expense was \$1,541,922 (2.8%) higher than budget. In 2009, net patient service revenue was \$3,227,437 (6.1%) higher than budget, while operating expenses were \$1,227,502 (2.2%) lower than budget due to extensive hospital-wide cost reductions.

Please see page 37 for the statement of budgeted and actual revenues and expenses for the year ended December 31, 2010.

Economic Factors and Next Year's Budget

During 2010, the District continued to experience declines in its patient volumes due to the slow economic recovery faced throughout the nation. Despite the reduction in volumes, the acuity of the patients increased, which generated 4.3% higher gross patient service revenues for 2010 as compared to 2009. The increased revenues generated an increase in operating expenses of 3.4% (excluding increases in employee benefits and provider fee). The total gain for 2010 decreased as compared to 2009 by \$2.5 million, caused primarily by the rising costs of employee benefits (\$907,040), newly implemented provider fee (\$675,559) and decreased total contributions (\$838,969).

The District continues to outsource its billing office to Computer Sciences Corporation and Firstsource located in St. Louis, Missouri. This arrangement, which has been in place since 2005, continues to result in the extraordinary management of accounts receivable and increased unrestricted cash. Evidence of this is in the fact that net days in accounts receivable for both 2010 and 2009 were below 48 days. Although net accounts receivable increased by \$688,151 (10%) during 2010, unrestricted cash balances increased by \$3,803,161 or 8.8% compared to 2009 levels.

In constructing the District's 2011 budget, management took into account the effects of the local and national economy, and anticipated volume declines of approximately 5% in the inpatient population, while maintaining the same levels of outpatient volumes. As a result of these assumptions, gross revenues for 2011 will be essentially flat (0.5% increase) when compared to 2010. Expenses for 2011 are expected to rise 2.5% over 2010, so the anticipated gain for 2011 will be \$6.2 million, a reduction of \$600,000 from 2010.

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 2010 and 2009 calendar years and to demonstrate the District's accountability for the money it received for providing health care services to members of this community and others. If you have questions about this report or need additional information, please contact Terry Collins, Aspen Valley Hospital District's Chief Financial Officer, at 0401 Castle Creek Road, Aspen, Colorado 81611.

Aspen Valley Hospital District
Balance Sheets
December 31, 2010 and 2009

Assets

	<u>2010</u>		<u>2009</u>	
	<u>Aspen Valley Hospital</u>	<u>Component Units</u>	<u>Aspen Valley Hospital</u>	<u>Component Units</u>
Current Assets				
Cash and cash equivalents	\$ 11,188,411	\$ 111,346	\$ 8,186,384	\$ 702,776
Short-term investments	17,765,196	-	17,415,969	-
Patient accounts receivable, net	7,451,593	621,733	6,763,442	618,700
Estimated amounts due from third-party payers	-	-	287,668	-
Contributions receivable	690,515	-	504,401	-
Other receivables	1,755,128	5,000	1,423,532	64,963
Inventories	1,626,066	116,779	1,626,037	121,444
Prepaid expenses	1,075,675	-	1,062,163	78,866
	<u>41,552,584</u>	<u>854,858</u>	<u>37,269,596</u>	<u>1,586,749</u>
Noncurrent Cash and Investments				
Internally designated for capital acquisitions	18,575,596	-	18,123,689	-
Bond funds restricted for capital acquisitions	50,109,327	-	-	-
Held by trustee for debt service	2,440,279	-	2,464,103	-
	<u>71,125,202</u>	<u>-</u>	<u>20,587,792</u>	<u>-</u>
Capital Assets, Net	<u>34,200,002</u>	<u>831,748</u>	<u>32,412,333</u>	<u>1,234,362</u>
Other Assets				
Contributions receivable	324,780	-	618,654	-
Physician guarantees receivable	173,945	-	363,563	-
Investment in joint venture	123,989	-	213,092	-
Other	1,145,026	-	499,510	127,395
	<u>1,767,740</u>	<u>-</u>	<u>1,694,819</u>	<u>127,395</u>
Total assets	<u>\$ 148,645,528</u>	<u>\$ 1,686,606</u>	<u>\$ 91,964,540</u>	<u>\$ 2,948,506</u>

See Notes to Financial Statements

Liabilities and Net Assets

	2010		2009	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Current Liabilities				
Current maturities of long-term debt	\$ 3,150,013	\$ -	\$ 1,210,278	\$ -
Accounts payable	1,836,274	75,868	2,338,034	56,586
Accrued salaries, benefits and payroll taxes	1,581,798	-	1,400,658	22,375
Other accrued liabilities	1,072,106	126,093	967,434	576,603
Refunds payable	96,351	-	58,768	-
Unclaimed refunds payable	317,732	-	416,106	-
Construction payable	332,675	-	-	-
Estimated amounts due to third-party payers	520,000	-	-	-
Total current liabilities	8,906,949	201,961	6,391,278	655,564
Long-term Debt				
Bonds payable	69,759,858	-	21,835,085	-
Capital lease obligations	448,096	-	1,009,743	-
Note payable	562,115	-	579,091	-
	70,770,069	-	23,423,919	-
Total liabilities	79,677,018	201,961	29,815,197	655,564
Net Assets				
Invested in capital assets, net of related debt	10,389,247	-	7,778,136	-
Restricted - expendable for				
Debt service	2,440,279	-	2,464,103	-
Capital acquisitions	506,030	-	506,030	-
Specific operating activities	423,156	-	617,024	-
Reserved for minority interests	-	727,477	-	1,019,264
Unrestricted	55,209,798	757,168	50,784,050	1,273,678
Total net assets	68,968,510	1,484,645	62,149,343	2,292,942
Total liabilities and net assets	\$ 148,645,528	\$ 1,686,606	\$ 91,964,540	\$ 2,948,506

Aspen Valley Hospital District
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2010 and 2009

	2010		2009	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Operating Revenues				
Net patient service revenue	\$ 57,313,190	\$ 4,311,041	\$ 55,843,357	\$ 4,450,116
Other	2,096,328	-	2,220,991	13,060
Total operating revenues	<u>59,409,518</u>	<u>4,311,041</u>	<u>58,064,348</u>	<u>4,463,176</u>
Operating Expenses				
Salaries and wages	22,582,846	654,244	21,496,637	935,318
Contract labor	1,719,974	-	1,486,186	-
Supplies and other	28,694,133	1,781,206	26,590,549	2,018,654
Depreciation and amortization	4,502,759	257,426	4,481,049	339,482
Total operating expenses	<u>57,499,712</u>	<u>2,692,876</u>	<u>54,054,421</u>	<u>3,293,454</u>
Operating Income	<u>1,909,806</u>	<u>1,618,165</u>	<u>4,009,927</u>	<u>1,169,722</u>
Nonoperating Revenues (Expenses)				
Ad valorem taxes	3,517,093	-	3,517,092	-
Investment income	878,251	25,786	869,059	14,538
Interest expense	(962,091)	-	(992,601)	-
Community assistance programs	(106,831)	-	(85,765)	-
Noncapital contributions	54,910	-	893,879	-
Gain on investment in joint venture	52,073	-	43,009	-
Gain (loss) on disposal of capital assets	(8,179)	-	12,944	-
Total nonoperating revenues (expenses)	<u>3,425,226</u>	<u>25,786</u>	<u>4,257,617</u>	<u>14,538</u>
Excess of Revenues Over Expenses Before Capital Contributions, Member Distributions, Equity Contributions and Transfers				
	5,335,032	1,643,951	8,267,544	1,184,260
Capital contributions	85,600	-	182,910	-
Member distributions	1,084,736	(2,060,000)	895,050	(1,755,000)
Equity contributions	-	-	-	7,762
Transfer of equity - Snowmass Clinic Associates, LLP	313,799	(392,248)	-	-
Change in Net Assets	<u>6,819,167</u>	<u>(808,297)</u>	<u>9,345,504</u>	<u>(562,978)</u>
Net Assets, Beginning of Year	<u>62,149,343</u>	<u>2,292,942</u>	<u>52,803,839</u>	<u>2,855,920</u>
Net Assets, End of Year	<u>\$ 68,968,510</u>	<u>\$ 1,484,645</u>	<u>\$ 62,149,343</u>	<u>\$ 2,292,942</u>

Aspen Valley Hospital District
Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010		2009	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Operating Activities				
Receipts from and on behalf of patients	\$ 57,371,916	\$ 4,308,008	\$ 53,699,495	\$ 4,542,542
Payments to suppliers	(31,484,491)	(2,128,903)	(28,204,840)	(1,493,118)
Payments to employees	(22,401,706)	(676,619)	(21,298,447)	(912,943)
Other receipts (payments), net	1,363,028	187,358	2,770,398	(49,445)
Net cash provided by operating activities	4,848,747	1,689,844	6,966,606	2,087,036
Noncapital Financing Activities				
Ad valorem taxes	3,517,093	-	3,517,092	-
Community assistance programs	(106,831)	-	(85,765)	-
Noncapital contributions	54,910	-	893,879	-
Net cash provided by noncapital financing activities	3,465,172	-	4,325,206	-
Capital and Related Financing Activities				
Purchases of capital assets	(5,226,655)	145,188	(2,830,286)	(67,623)
Proceeds from sale of capital assets	10,019	-	19,284	-
Proceeds from issuance of bonds	50,499,827	-	-	-
Principal payments on long-term debt	(1,213,942)	-	(1,243,320)	-
Interest payments on long-term debt	(962,091)	-	(992,601)	-
Capital contributions	85,600	-	182,910	-
Net cash provided by (used in) capital and related financing activities	43,192,758	145,188	(4,864,013)	(67,623)
Investing Activities				
Purchases of investments, net	(765,376)	-	(34,087,873)	-
Investment income	947,694	25,786	575,183	14,538
Member distributions	1,084,736	(2,060,000)	970,687	(1,755,000)
Transfer of equity - Snowmass Clinic Associates, LLP	313,799	(392,248)	-	-
Net cash provided by (used in) investing activities	1,580,853	(2,426,462)	(32,542,003)	(1,740,462)
Increase (Decrease) in Cash and Cash Equivalents	53,087,530	(591,430)	(26,114,204)	278,951
Cash and Cash Equivalents, Beginning of Year	10,650,487	702,776	36,764,691	423,825
Cash and Cash Equivalents, End of Year	\$ 63,738,017	\$ 111,346	\$ 10,650,487	\$ 702,776

Aspen Valley Hospital District
Statements of Cash Flows (Continued)
Years Ended December 31, 2010 and 2009

	2010		2009	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Reconciliation of Cash and Cash Equivalents to the Balance Sheets				
Cash and cash equivalents	\$ 11,188,411	\$ 111,346	\$ 8,186,384	\$ 702,776
Bond funds restricted for capital acquisitions	50,109,327	-	-	-
Held by trustee for debt service	2,440,279	-	2,464,103	-
Total cash and cash equivalents	<u>\$ 63,738,017</u>	<u>\$ 111,346</u>	<u>\$ 10,650,487</u>	<u>\$ 702,776</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating income	\$ 1,909,806	\$ 1,618,165	\$ 4,009,927	\$ 1,169,722
Depreciation and amortization	4,502,759	257,426	4,481,049	339,482
Bad debt expense	2,272,739	-	2,046,383	-
Gain on reversal of unclaimed refunds payable	-	-	(664,458)	-
Change in assets and liabilities				
Patient accounts receivable	(2,960,890)	(3,033)	(2,751,540)	92,426
Contributions receivable	107,760	-	149,499	-
Other receivables	(231,145)	59,963	445,110	(47,505)
Inventories	(29)	4,665	(16,561)	20,580
Prepaid expenses	(13,512)	78,866	(480,797)	91,607
Other assets	(609,915)	127,395	(45,202)	(15,000)
Accounts payable	(1,057,941)	19,282	534,568	(25,336)
Accrued salaries, benefits and payroll taxes	181,140	(22,375)	198,173	22,375
Other accrued liabilities	1,098	(450,510)	(165,298)	438,685
Refund payable	37,583	-	(190,944)	-
Unclaimed refunds payable	(98,374)	-	56,434	-
Estimated amounts due to/from third-party payers	807,668	-	(639,737)	-
Net cash provided by operating activities	<u>\$ 4,848,747</u>	<u>\$ 1,689,844</u>	<u>\$ 6,966,606</u>	<u>\$ 2,087,036</u>
Supplemental Cash Flows Information				
Capital lease obligations for equipment	\$ -	\$ -	\$ 89,277	\$ -
Capital asset acquisitions included in accounts payable and construction payable	\$ 934,282	\$ -	\$ 63,152	\$ -
Capitalized interest	\$ 72,190	\$ -	\$ -	\$ -

Aspen Valley Hospital District
Statements of Fiduciary Net Assets
Fiduciary Funds
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Investments	<u>\$ 12,489,481</u>	<u>\$ 10,045,588</u>
Net Assets - Held for Pension Benefits	<u>\$ 12,489,481</u>	<u>\$ 10,045,588</u>

Aspen Valley Hospital District
Statements of Changes in Fiduciary Net Assets
Fiduciary Funds
Years Ended December 31, 2010 and 2009

	2010	2009
Additions		
Contributions for employee benefits	\$ 1,508,000	\$ 1,675,000
Investment earnings	1,458,153	1,793,661
Total additions	2,966,153	3,468,661
Deductions		
Benefits	510,204	833,257
Administrative expenses	12,056	8,326
Total deductions	522,260	841,583
Change in Net Assets	2,443,893	2,627,078
Net Assets at Beginning of the Year	10,045,588	7,418,510
Net Assets at End of the Year	\$ 12,489,481	\$ 10,045,588

Aspen Valley Hospital District

Notes to Financial Statements

December 31, 2010 and 2009

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 a 3% interest in Healthcare Management, LLC. The District is governed by a Board of Directors consisting of five members elected by the residents of the District. The District is not a component unit of another governmental entity.

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

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

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

Basis of Accounting and Presentation

The District's government-wide financial statements (balance sheets and statements of revenues, expenses and changes in net assets and statements of cash flows) are comprised of an enterprise fund and discretely presented component units that use proprietary fund reporting. The only other fund of the District is a fiduciary fund (employee retirement fund) that is excluded from the government-wide financial statements and is presented separately as fund financial statements. The District utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on

Aspen Valley Hospital District

Notes to Financial Statements

December 31, 2010 and 2009

Governmental Accounting Standards for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued on and after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2010 and 2009, 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 includes interest income and realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Aspen Valley Hospital District

Notes to Financial Statements

December 31, 2010 and 2009

Noncurrent cash and investments are assets internally designated for capital acquisitions, bond fund restricted for capital acquisitions, and held by trustees under the Bond Indenture Agreements for debt service. The internally designated funds remain under the control of the District's Board of Directors, which may at its discretion later use the funds for other purposes.

Patient Accounts Receivable

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

Inventories

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

Physician Guarantee Contracts

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

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

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2010 and 2009

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:

	2010	2009
Total interest expense incurred on borrowings for project	\$ 103,575	\$ -
Total interest income from investment of proceeds of borrowings for project	31,385	-
Net interest cost capitalized	\$ 72,190	\$ -

Construction contracts of approximately \$61,104,000 exist for the hospital expansion. At December 31, 2010, the remaining commitment on these contracts approximated \$60,771,000.

Deferred Financing Costs

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

Compensated Absences

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

Bond Premium and Loss on Refunding

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

Aspen Valley Hospital District

Notes to Financial Statements

December 31, 2010 and 2009

Net Assets

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

Net Patient Service Revenue

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

Charity Care

The District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Net patient service revenue is reported net of charity care. Charges excluded from revenue under the District's charity care policy were \$2,420,822 and \$2,199,117 for 2010 and 2009, respectively.

Ad Valorem Taxes

The District received approximately 5% of its sources of funds from ad valorem taxes in 2010 and 2009. These funds were used to support the operating and capital needs of the District. In November 2005, the voters in the District approved the District's mill levy for a five-year period through 2010. 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 mill levy to pay 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.

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2010 and 2009

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Deposits, Investments and Investment Income

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:

	2010	2009
FDIC insured	\$ 36,789,684	\$ 35,887,293
Collateralized by securities held by the pledging financial institution's trust department or agent in other than the District's name	62,250,626	9,411,442
Total	\$ 99,040,310	\$ 45,298,735
Carrying value on the balance sheets at December 31	\$ 98,720,372	\$ 44,641,027

The carrying value on the balance sheets at December 31, 2010 and 2009, includes noncurrent cash and investments of \$69,769,565 and \$19,041,574, 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, 2010 and 2009, investments amounted to \$13,845,118 and \$11,439,441, respectively. All investments under bond agreements, with the exception of those included in deposits, were invested in direct obligations of the U.S. Government through pooled investments.

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

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2010 and 2009

Summary of Carrying Values

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

	<u>2010</u>	<u>2009</u>
Carrying value		
Deposits	\$ 98,720,372	\$ 44,641,027
Investments	13,845,118	11,439,441
Cash on hand and change funds	<u>2,800</u>	<u>2,900</u>
	<u>\$ 112,568,290</u>	<u>\$ 56,083,368</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 11,188,411	\$ 8,186,384
Short-term investments	17,765,196	17,415,969
Internally designated for capital acquisitions	18,575,596	17,971,324
Bond funds restricted for capital acquisitions	50,109,327	-
Held by trustee under bond agreement	2,440,279	2,464,103
Held by trustee under pension plan agreement (fiduciary fund assets)	<u>12,489,481</u>	<u>10,045,588</u>
	<u>\$ 112,568,290</u>	<u>\$ 56,083,368</u>

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:

	<u>2010</u>	<u>2009</u>
Patient accounts receivable, gross	\$ 9,687,905	\$ 8,448,599
Allowance for doubtful accounts	(681,167)	(675,259)
Allowance for contractual adjustments	<u>(1,555,145)</u>	<u>(1,009,898)</u>
Patient accounts receivable, net	<u>\$ 7,451,593</u>	<u>\$ 6,763,442</u>

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2010 and 2009

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

	2010	2009
Medicare	16%	14%
Medicaid	2%	2%
Blue Cross	10%	13%
Other third-party payers	63%	65%
Self-pay	9%	6%
	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 fiscal intermediary.

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

Approximately 33% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2010 and 2009. 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.

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2010 and 2009

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

	2010	2009
Gross patient service revenue	\$ 75,952,140	\$ 72,806,695
Less		
Medicare contractals	6,182,384	4,918,293
Medicaid contractals	542,272	1,346,080
Other contractals and adjustments	7,220,733	6,453,465
Charity care	2,420,822	2,199,117
Bad debt expense	2,272,739	2,046,383
Net patient service revenue	\$ 57,313,190	\$ 55,843,357

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 maximum potential amount of future undiscounted payments the District could be required to make under the physician guarantee contracts totaled \$57,122 at December 31, 2009. There is no such liability at December 31, 2010. The carrying amounts of the physician guarantee contracts are included in the balance sheets as follows:

	2010	2009
Other receivables	\$ 264,618	\$ 392,013
Physician gurantees receivable	173,945	363,563
	\$ 438,563	\$ 755,576
Other accrued liabilities	\$ -	\$ 57,122

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2010 and 2009

Note 6: Capital Assets

Capital assets activity for the years ended December 31 was:

	2010				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 267,057	\$ -	\$ -	\$ -	\$ 267,057
Land improvements	1,051,759	-	-	-	1,051,759
Buildings	15,079,063	102,182	-	-	15,181,245
Fixed equipment	6,747,676	-	-	-	6,747,676
Moveable equipment	30,602,578	1,353,979	(209,138)	-	31,747,419
Employee housing	8,571,021	59,056	-	-	8,630,077
Construction in progress	3,789,457	4,738,689	-	-	8,528,146
	<u>66,108,611</u>	<u>6,253,906</u>	<u>(209,138)</u>	<u>-</u>	<u>72,153,379</u>
Less accumulated depreciation					
Land improvements	621,173	33,427	-	-	654,600
Buildings	7,741,395	589,201	-	-	8,330,596
Fixed equipment	2,997,333	345,897	-	-	3,343,230
Moveable equipment	19,355,535	3,203,344	(190,697)	-	22,368,182
Employee housing	2,980,842	275,927	-	-	3,256,769
	<u>33,696,278</u>	<u>4,447,796</u>	<u>(190,697)</u>	<u>-</u>	<u>37,953,377</u>
Capital assets, net	<u>\$ 32,412,333</u>	<u>\$ 1,806,110</u>	<u>\$ (18,441)</u>	<u>\$ -</u>	<u>\$ 34,200,002</u>
	2009				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 267,057	\$ -	\$ -	\$ -	\$ 267,057
Land improvements	1,051,759	-	-	-	1,051,759
Buildings	18,888,203	215,280	-	(4,024,420)	15,079,063
Fixed equipment	2,716,027	7,229	-	4,024,420	6,747,676
Moveable equipment	28,898,928	1,941,843	(238,193)	-	30,602,578
Employee housing	8,548,961	26,004	(3,944)	-	8,571,021
Construction in progress	3,165,725	623,732	-	-	3,789,457
	<u>63,536,660</u>	<u>2,814,088</u>	<u>(242,137)</u>	<u>-</u>	<u>66,108,611</u>
Less accumulated depreciation					
Land improvements	586,749	34,424	-	-	621,173
Buildings	7,235,830	587,633	-	(82,068)	7,741,395
Fixed equipment	2,563,703	351,562	-	82,068	2,997,333
Moveable equipment	16,464,970	3,122,418	(231,853)	-	19,355,535
Employee housing	2,677,362	307,424	(3,944)	-	2,980,842
	<u>29,528,614</u>	<u>4,403,461</u>	<u>(235,797)</u>	<u>-</u>	<u>33,696,278</u>
Capital assets, net	<u>\$ 34,008,046</u>	<u>\$ (1,589,373)</u>	<u>\$ (6,340)</u>	<u>\$ -</u>	<u>\$ 32,412,333</u>

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2010 and 2009

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 healthcare benefits as it purchases annual stop-loss insurance coverage for all claims in excess of \$125,000 and \$100,000 for the years ended December 31, 2010 and 2009, respectively, per individual participant and aggregate stop-loss at predetermined amounts annually. Other accrued liabilities on the balance sheet include an accrual for claims which have been incurred but not reported. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors.

Activity in the District's accrued health employee health claims liability during 2010 and 2009 is summarized as follows:

	2010	2009
Unpaid claims at beginning of year	\$ 503,000	\$ 512,000
Total incurred claims and claim adjustment expenses	3,835,338	2,931,816
Total payments	(3,689,587)	(2,940,816)
 Total unpaid claims and claim adjustment expenses at end of year	 \$ 648,751	 \$ 503,000

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.

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2010 and 2009

Note 10: Long-term Debt

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

	2010					
	Beginning Balance	Additions	Payments	Ending Balance	Amounts Due Within One Year	Long-term Portion
2003 revenue bonds payable	\$10,965,000	\$ -	\$ (125,000)	\$10,840,000	\$ 125,000	\$10,715,000
2007 revenue bonds payable	12,075,000	-	(480,000)	11,595,000	500,000	11,095,000
2010 revenue bonds payable	-	50,000,000	-	50,000,000	1,950,000	48,050,000
Note payable	593,328	-	(16,737)	576,591	14,476	562,115
Capital leases	1,635,960	-	(627,381)	1,008,579	560,483	448,096
	<u>25,269,288</u>	<u>50,000,000</u>	<u>(1,249,118)</u>	<u>74,020,170</u>	<u>3,149,959</u>	<u>70,870,211</u>
Unamortized premium on Series 2010	-	499,827	-	499,827	36,557	463,270
Unamortized premium on Series 2007	200,121	-	(19,893)	180,228	18,566	161,662
Unamortized loss on refunding 2000 and 2001 bonds	(835,212)	-	55,069	(780,143)	(55,069)	(725,074)
	<u>\$24,634,197</u>	<u>\$50,499,827</u>	<u>\$(1,213,942)</u>	<u>\$73,920,082</u>	<u>\$ 3,150,013</u>	<u>\$70,770,069</u>
	2009					
	Beginning Balance	Additions	Payments	Ending Balance	Amounts Due Within One Year	Long-term Portion
2003 revenue bonds payable	\$11,090,000	\$ -	\$ (125,000)	\$10,965,000	\$ 125,000	\$10,840,000
2007 revenue bonds payable	12,530,000	-	(455,000)	12,075,000	480,000	11,595,000
Note payable	605,554	-	(12,226)	593,328	14,237	579,091
Capital leases	2,234,110	89,277	(687,427)	1,635,960	626,796	1,009,164
	<u>26,459,664</u>	<u>89,277</u>	<u>(1,279,653)</u>	<u>25,269,288</u>	<u>1,246,033</u>	<u>24,023,255</u>
Unamortized premium on Series 2007	218,857	-	(18,736)	200,121	19,314	180,807
Unamortized loss on refunding 2000 and 2001 bonds	(890,281)	-	55,069	(835,212)	(55,069)	(780,143)
	<u>\$25,788,240</u>	<u>\$ 89,277</u>	<u>\$(1,243,320)</u>	<u>\$24,634,197</u>	<u>\$ 1,210,278</u>	<u>\$23,423,919</u>

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2010 and 2009

Revenue Bonds Payable – Series 2003

Hospital Variable Rate Revenue Bonds - Series 2003, interest is computed at the weekly interest rate as determined by Wachovia Bank N.A. and is payable each April 15 and October 15. The variable rate at December 31, 2010 and 2009, was 0.33% and 0.22%, respectively. Interest rates assigned on each Bonds for the last week of December 2010 were used for calculating estimated future interest payments on the Bonds. Principal is due on demand but if not demanded, is payable in installments through October 15, 2033. The Bonds are special and limited revenue obligations of the District and are secured by net revenues. These Bonds are remarketed on a periodic basis and are supported by a letter of credit in the event the Bonds are not able to be remarketed. Any advances made under the letter of credit agreement will be financed on a long-term basis. As of December 31, 2010, all variable rate bonds have been successfully remarketed.

Pursuant to the issuance of the Series 2003 Bonds, a Reimbursement Agreement was signed between Vectra Bank Colorado, Zions First National Bank and the District. The District was in compliance with all covenants pertaining to this agreement at December 31, 2010 and 2009.

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 5%, payable semi-annually. The Series 2007 Bonds are issued and pursuant to and are secured by the Bond Resolution. The Bonds are limited obligations payable solely from the net revenues derived from operations of the District.

The District was in compliance with all covenants pertaining to the 2007 Bonds at December 31, 2010 and 2009.

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. \$5,095,000 of the Series 2001 are outstanding as of December 31, 2010, with a call date of October 2011. There are no Series 2000 bonds outstanding which have not been called as of December 31, 2010.

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.

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2010 and 2009

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

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

Note Payable to Bank

The District has entered into a note payable with principal and interest payable monthly and a final balloon payment due in 2013. The note is collateralized by property and has a variable interest rate. The variable rate at December 31, 2010 and 2009, was 2.15% and 2.21%, respectively.

Capital Lease Obligations

The District has capitalized lease obligations at varying rates of imputed interest maturing between 2011 and 2014 that are collateralized by leased equipment.

The debt service requirements as of December 31, 2010, are as follows:

	Revenue Bonds Payable		Note Payable		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
Year Ending December 31						
2011	\$ 2,575,000	\$ 2,854,441	\$ 14,476	\$ 15,013	\$ 560,483	\$ 29,150
2012	2,570,000	2,882,452	14,615	14,635	331,210	9,529
2013	2,635,000	2,818,840	547,501	13,090	115,596	1,191
2014	2,720,000	2,740,341	-	-	1,290	161
2015	2,785,000	2,674,371	-	-	-	-
2016-2020	15,350,000	11,750,629	-	-	-	-
2021-2025	18,105,000	8,054,055	-	-	-	-
2026-2030	21,655,000	3,099,079	-	-	-	-
2031-2035	4,040,000	26,680	-	-	-	-
	<u>\$72,435,000</u>	<u>\$36,900,888</u>	<u>\$ 576,592</u>	<u>\$ 42,738</u>	<u>\$ 1,008,579</u>	<u>\$ 40,031</u>

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2010 and 2009

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

	2010	2009
Major moveable equipment	\$ 3,833,817	\$ 3,833,817
Less accumulated depreciation	2,627,671	1,887,268
	\$ 1,206,146	\$ 1,946,549

Note 11: Operating Leases

The District leases various facility spaces and equipment under operating leases expiring through 2015. Future five-year minimum lease payments under these noncancelable leases at December 31, 2010, are:

2011	\$ 860,850
2012	513,563
2013	416,503
2014	315,620
2015	270,830
Future minimum lease payments	\$ 2,377,366

Rental expense for all operating leases at December 31, 2010 and 2009, was \$1,036,964 and \$1,107,400, respectively.

Note 12: The Aspen Valley Medical Foundation, Limited

The Aspen Valley Medical Foundation, Limited (the Foundation) is an independent non-profit corporation incorporated in 1974. The Foundation's primary objective is the betterment of health care in the Roaring Fork Valley of Colorado. The Foundation's office is located in the Aspen Valley Hospital. The District receives contribution pledges from the Foundation for operations and capital-related items. For the years ended December 31, 2010 and 2009, the District received contribution pledges of \$88,609 and \$976,024, respectively, from the Foundation. Contribution payments received from the Foundation during 2010 and 2009 totaled \$182,868 and \$1,132,024, respectively. As of December 31, 2010 and 2009, contributions receivable totaled \$1,015,295 and \$1,123,055, respectively.

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2010 and 2009

Note 13: Pension Plans

Defined Contribution Plan

The District provides a 457(b) plan to substantially all employees of the District. The employees may contribute up to 100% of their salary to the 457(b) plan. The employees' total salary deferral is limited by the Internal Revenue Service (IRS) annually. Employees are always 100% vested in the contributions they choose to defer. If an employee is 50 years old or older and has met the annual IRS deferral limit, the employee may contribute a catch-up deferral that is also limited by the IRS annually. Contributions from employees to the 457(b) plan were \$1,471,254 and \$1,426,248 for the years ended December 31, 2010 and 2009, 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 \$341,473 and \$305,956 for the years ended December 31, 2010 and 2009, 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.

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2010 and 2009

Annual Pension Cost and Net Pension Asset

The District's annual pension cost and net pension asset to the Plan for the years ended December 31, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Annual required contribution	\$ 1,480,454	\$ 1,666,196
Interest on net pension asset	(32,446)	(33,833)
Adjustment to annual required contribution	<u>58,628</u>	<u>61,135</u>
Annual pension cost	1,506,636	1,693,498
Adjustment to net pension asset	17,892	-
Contributions made	<u>(1,508,000)</u>	<u>(1,675,000)</u>
Decrease in net pension asset	16,528	18,498
Net pension asset at beginning of year	<u>450,502</u>	<u>469,000</u>
Net pension asset at end of year	<u><u>\$ 433,974</u></u>	<u><u>\$ 450,502</u></u>

The annual required contribution for the years ended December 31, 2010 and 2009, was determined as part of the January 1, 2010 and 2009, actuarial valuation using the unit credit cost method, respectively. The actuarial assumptions for the years ended December 31 are as follows:

	<u>2010</u>	<u>2009</u>
Long-term investment rate of return (net of administrative expenses)	7.50%	7.50%
Projected salary increases after ten years	5.50%	5.50%
Inflation component per year	3.00%	3.00%

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, 2010 and 2009, is 10 years.

As of January 1, 2010, the most recent actuarial valuation dated, the Plan was 80% funded. The actuarial accrued liability for benefits was \$12,613,235 and actuarial value of assets was \$10,045,588, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,567,647. The covered payroll was \$18,360,934, and the ratio of the UAAL to the covered payroll was 14%.

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.

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2010 and 2009

Three-year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2008	\$ 1,049,752	109%	\$ 469,000
2009	1,693,498	99%	450,502
2010	1,506,636	100%	433,974

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

Note 14: Contingencies

Litigation

In the normal course of business, the District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the District's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 15: Subsequent Event

Subsequent events have been evaluated through March 25, 2011, which is the date the financial statements were available to be issued.

Supplementary Information

Aspen Valley Hospital District
Schedule of Funding Progress –
Cash Balance Retirement Plan
Years Ended December 31

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (a-b/c)
6/1/01	\$ 5,311,501	\$ 5,159,401	\$ 152,100	103%	\$ 13,171,042	1%
6/1/02	5,505,440	6,101,743	(596,303)	90%	14,400,476	-4%
6/1/03	5,907,744	6,908,500	(1,000,756)	86%	16,037,942	-6%
6/1/04	7,310,833	8,040,139	(729,306)	91%	15,046,364	-5%
6/1/05	7,778,060	8,439,829	(661,769)	92%	12,717,916	-5%
6/1/06	8,834,727	9,692,585	(857,858)	91%	12,777,017	-7%
6/1/07	10,198,381	10,220,086	(21,705)	100%	14,584,176	0%
1/1/08	9,990,736	10,615,471	(624,735)	94%	16,039,223	-4%
1/1/09	7,418,510	11,844,382	(4,425,872)	63%	17,094,569	-26%
1/1/10	10,045,588	12,613,235	(2,567,647)	80%	18,360,934	-14%

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
2001	\$ 703,886	100%
2002	851,826	100%
2003	999,216	100%
2004	914,386	105%
2005	778,430	96%
2006	887,556	109%
2007	492,369	100%
2008	1,043,735	110%
2009	1,666,196	101%
2010	1,508,000	100%

Aspen Valley Hospital District
Statement of Budgeted and Actual Revenues and Expenses
Year Ended December 31, 2010

	Budgeted Amount Original	Actual	Favorable (Unfavorable) Variance
Operating Revenues			
Net patient service revenue	\$ 53,743,391	\$ 57,313,190	\$ 3,569,799
Other	2,257,916	2,096,328	(161,588)
Total operating revenues	56,001,307	59,409,518	3,408,211
Operating Expenses	55,867,790	57,499,712	(1,631,922)
Operating Income	133,517	1,909,806	1,776,289
Nonoperating Revenues (Expenses)			
Ad valorem taxes	3,517,111	3,517,093	(18)
Investment income	900,000	878,251	(21,749)
Interest expense	(1,000,000)	(962,091)	37,909
Community assistance programs	(90,000)	(106,831)	(16,831)
Noncapital contributions	43,045	54,910	11,865
Gain on investment in joint venture	-	52,073	52,073
Loss on disposal of capital assets	-	(8,179)	(8,179)
Total nonoperating revenues (expenses)	3,370,156	3,425,226	55,070
Excess of Revenues Over Expenses Before Capital Contributions, Member Distributions and Transfers	3,503,673	5,335,032	1,831,359
Capital contributions	500,000	85,600	(414,400)
Member distributions	650,000	1,084,736	434,736
Transfer of equity - Snowmass Clinic Associates, LLC	-	313,799	313,799
Change in Net Assets	<u>\$ 4,653,673</u>	<u>\$ 6,819,167</u>	<u>\$ 2,165,494</u>

Notes to Schedule

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

Budgets are adopted by resolution in total. There were no supplemental budgets adopted during 2010.

Aspen Valley Hospital District
Combining Statement of Balance Sheets – Component Units
Year Ended December 31, 2010

	Midvalley Ambulatory Surgery Center, LLC	Midvalley Imaging Center, LLC	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 89,188	\$ 22,158	\$ 111,346
Patient accounts receivable, net	467,735	153,998	621,733
Other receivables	-	5,000	5,000
Inventories	116,779	-	116,779
	<u>673,702</u>	<u>181,156</u>	<u>854,858</u>
Total current assets			
Capital Assets, Net	<u>133,001</u>	<u>698,747</u>	<u>831,748</u>
Total assets	<u><u>\$ 806,703</u></u>	<u><u>\$ 879,903</u></u>	<u><u>\$ 1,686,606</u></u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 55,934	\$ 19,934	\$ 75,868
Other accrued liabilities	126,093	-	126,093
	<u>182,027</u>	<u>19,934</u>	<u>201,961</u>
Total current liabilities			
Net Assets			
Reserved for minority interests	306,092	421,385	727,477
Unrestricted	318,584	438,584	757,168
	<u>624,676</u>	<u>859,969</u>	<u>1,484,645</u>
Total net assets			
Total liabilities and net assets	<u><u>\$ 806,703</u></u>	<u><u>\$ 879,903</u></u>	<u><u>\$ 1,686,606</u></u>

Aspen Valley Hospital District
Combining Statement of Revenues, Expenses
and Changes in Net Assets – Component Units
Year Ended December 31, 2010

	Midvalley Ambulatory Surgery Center, LLC	Midvalley Imaging Center, LLC	Total
Operating Revenues			
Net patient service revenue	\$ 3,432,887	\$ 878,154	\$ 4,311,041
Operating Expenses			
Salaries and wages	575,752	78,492	654,244
Supplies and other	1,442,423	338,783	1,781,206
Depreciation and amortization	84,746	172,680	257,426
Total operating expenses	2,102,921	589,955	2,692,876
Operating Income	1,329,966	288,199	1,618,165
Nonoperating Revenues (Expenses)			
Investment income	11,793	13,993	25,786
Excess of Revenues Over Expenses Before Member Distributions	1,341,759	302,192	1,643,951
Member distributions	(1,535,000)	(525,000)	(2,060,000)
Change in Net Assets	(193,241)	(222,808)	(416,049)
Net Assets at Beginning of Year	817,917	1,082,777	1,900,694
Net Assets at End of Year	<u>\$ 624,676</u>	<u>\$ 859,969</u>	<u>\$ 1,484,645</u>

Aspen Valley Hospital District
Combining Statement of Cash Flows – Component Units
Year Ended December 31, 2010

	Midvalley Ambulatory Surgery Center, LLC	Snowmass Clinic Associates, LLP	Midvalley Imaging Center, LLC	Total
Operating Activities				
Receipts from and on behalf of patients	\$ 3,418,564	\$ 31,323	\$ 858,121	\$ 4,308,008
Payments to suppliers	(1,386,523)	(417,562)	(324,818)	(2,128,903)
Payments to employees	(575,752)	(22,375)	(78,492)	(676,619)
Other receipts (payments), net	-	187,358	-	187,358
	<u>1,456,289</u>	<u>(221,256)</u>	<u>454,811</u>	<u>1,689,844</u>
Capital and Related Financing Activities				
Purchases of capital assets	(2,425)	147,614	-	145,189
Investing Activities				
Investment income	11,793	-	13,993	25,786
Member distributions	(1,535,000)	-	(525,000)	(2,060,000)
Transfer of equity - Snowmass Clinic Associates, LLP	-	(392,248)	-	(392,248)
	<u>(1,523,207)</u>	<u>(392,248)</u>	<u>(511,007)</u>	<u>(2,426,462)</u>
Decrease in Cash and Cash Equivalents	(69,343)	(465,890)	(56,196)	(591,429)
Cash and Cash Equivalents, Beginning of Year	158,531	465,890	78,355	702,776
Cash and Cash Equivalents, End of Year	<u>\$ 89,188</u>	<u>\$ -</u>	<u>\$ 22,159</u>	<u>\$ 111,347</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating income	\$ 1,329,966	\$ -	\$ 288,199	\$ 1,618,165
Depreciation and amortization	84,746	-	172,680	257,426
Change in assets and liabilities				
Patient accounts receivable	(14,323)	31,323	(20,033)	(3,033)
Other receivables	-	59,963	-	59,963
Inventories	(16,449)	21,114	-	4,665
Prepaid expenses	-	78,866	-	78,866
Other assets	-	127,395	-	127,395
Accounts payable	5,317	-	13,965	19,282
Accrued salaries, benefits and payroll taxes	-	(22,375)	-	(22,375)
Other accrued liabilities	67,032	(517,542)	-	(450,510)
	<u>\$ 1,456,289</u>	<u>\$ (221,256)</u>	<u>\$ 454,811</u>	<u>\$ 1,689,844</u>
Net cash provided by operating activities	<u>\$ 1,456,289</u>	<u>\$ (221,256)</u>	<u>\$ 454,811</u>	<u>\$ 1,689,844</u>