

Aspen Valley Hospital District

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016



Aspen Valley Hospital District
December 31, 2017 and 2016

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Independent Auditor's Report

Board of Directors
Aspen Valley Hospital District
Aspen, Colorado

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units, and the fiduciary fund information of Aspen Valley Hospital District (the District) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Aspen Valley Hospital District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, and the fiduciary fund information of Aspen Valley Hospital District as of December 31, 2017 and 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Wichita, Kansas
April 6, 2018

Aspen Valley Hospital District

Management's Discussion and Analysis

Years Ended December 31, 2017 and 2016

Introduction

As management of Aspen Valley Hospital District (the District), we offer readers of the financial statements this discussion and analysis of the financial activities of the District for the calendar years ended on December 31, 2017 and 2016.

The financial statements are presented in two columns – one for the District which includes the Aspen Valley Hospital and Aspen Valley Hospital Foundation and one for discretely presented component units, Midvalley Ambulatory Surgery Center, LLC (ASC) and Midvalley Imaging Center, LLC (MIC). The ASC and MIC are owned solely 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 discretely presented component units 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, 2017 and 2016.
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, 2017 and 2016.
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, 2017 and 2016.
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 2017 were \$231,182,586 compared to \$229,583,107 for 2016 and \$227,223,629 at the end of 2015. The \$1,599,479 increase from 2016 total assets is attributable to the increase in short-term investments, patient accounts receivable, estimated amounts due from third-party payers, other receivables, inventories, noncurrent cash restricted by donors for specific operating activities, bond funds restricted for capital acquisitions and noncurrent cash held by trustee for debt service; and decreases in cash and cash equivalents, prepaid expenses, both noncurrent cash internally designated for capital acquisitions and restricted by donors for capital acquisitions, capital assets, other

assets and deferred outflows of resources. The \$2,359,478 increase from 2015 total assets is attributable to the increase in patient accounts receivable, short-term investments, estimated amounts due from third-party payers, prepaid expenses, noncurrent cash restricted by donors for both capital acquisitions and specific operating activities, capital assets, other assets and deferred outflows of resources; and decreases in cash and cash equivalents, contributions receivable, other receivables, inventories, noncurrent cash internally designated for capital acquisitions, both net contributions receivable and contributions receivable held by Aspen Community Foundation, noncurrent cash held by Aspen Community Foundation and noncurrent cash held by trustee for debt service.

At December 31, 2017, assets consisted primarily of cash and cash equivalents of \$16,494,400; short-term investments of \$26,723,084; net patient accounts receivable of \$10,798,160; estimated amounts due from third-party payers of \$2,521,744; other receivable of \$1,000,061; inventories of \$2,293,479; prepaid expenses of \$971,660; noncurrent cash as follows: restricted by donors for capital acquisitions of \$611,222; restricted by donors for specific operating activities of \$134,519; net contributions receivable of \$4,169,559; bond funds assets held by trustee for debt service of \$2,164,153; net capital assets of \$154,371,660; deferred outflows of resources of \$4,211,720 and other assets of \$4,254,018.

At December 31, 2016, assets consisted primarily of cash and cash equivalents of \$20,685,464; short-term investments of \$17,481,458; net patient accounts receivable of \$10,351,270; estimated amounts due from third-party payers of \$1,785,654; other receivable of \$816,116; inventories of \$2,176,626; prepaid expenses of \$1,202,578; noncurrent cash as follows: internally designated for capital acquisitions of \$2,980,799; restricted by donors for capital acquisitions of \$1,670,734; restricted by donors for specific operating activities of \$104,028; net contributions receivable of \$4,396,191; bond funds assets held by trustee for debt service of \$2,149,253; net capital assets of \$154,666,675; deferred outflows of resources of \$4,290,510 and other assets of \$4,525,027.

Comparable asset balances at December 31, 2015, consisted primarily of cash and cash equivalents of \$33,733,048; short-term investments of \$17,369,982; net patient accounts receivable of \$9,436,422 ; estimated amounts due from third-party payers of \$1,534,667; other receivable of \$1,234,048; inventories of \$2,252,581; prepaid expenses of \$1,180,645; noncurrent cash as follows: internally designated for capital acquisitions of \$10,000,000; restricted by donors for capital acquisitions of \$1,151,972; net contributions receivable of \$7,230,520; bond funds assets held by trustee for debt service of \$2,414,707; net capital assets of \$134,885,259; deferred outflows of resources of \$3,047,221 and other assets of \$1,154,454.

The capital asset growth experienced during 2016 of \$19,781,416 and 2015 of \$12,487,343, stabilized in 2017 with the completion of the Third Phase of the District's continued facilities improvement project referred to as the Master Facilities Plan project that broke ground in 2015. Although the majority of this phase's funding came from philanthropy, the funds will be received over a period of years. As expected, the District experienced a decrease in noncurrent cash and investments internally designated for capital acquisitions of \$2,980,799 in 2017 and a decrease in cash and cash equivalents of \$13,047,584 in 2016 resulting from the completion of the Master facilities Plan. The District plans to replenish its cash reserves as the philanthropic funds are received over the coming years. As of December 31, 2017, Aspen Valley Hospital Foundation has raised \$43 million of the \$60 million goal.

The increase in net patient accounts receivable during 2017, 2016 and 2015 resulted from increased net patient service revenues through the expansion of services provided by the District. The continued stabilization in net patient accounts receivable and the increase in cash collections during 2017, 2016 and 2015 resulted from the reliable revenue cycle management of MedAssist (a division of Firstsource Solutions), an outside billing specialist. An emphasis on timely communication with third-party payers and effective claims management were instrumental in the retention of cash and cash equivalents, investments and assets internally designated for capital acquisitions for 2015.

The District's total liabilities at December 31, 2017, were \$69,906,983; noting accounts payable of \$3,993,016; estimated amounts due to third-party payers of \$88,129; construction payable of \$2,172,126; accrued liabilities of \$4,004,486; patient and insurance refunds payable of \$195,868; unclaimed refunds payable of \$27,704; long-term bonds payable of \$51,851,509; long-term capital lease obligations of \$723,943; current maturities of long-term debt of \$3,573,110 and net pension liability of \$3,277,092.

The District's total liabilities at December 31, 2016, were \$74,781,194; noting accounts payable of \$4,054,655; construction payable of \$5,078,085; accrued liabilities of \$3,876,926; patient and insurance refunds payable of \$78,582; unclaimed refunds payable of \$65,492; long-term bonds payable of \$55,114,627; long-term capital lease obligations of \$417,472; current maturities of long-term debt of \$2,991,011 and net pension liability of \$3,104,344.

The District's total liabilities at December 31, 2015, were \$78,265,535; noting accounts payable of \$3,299,504; construction payable of \$4,548,122; accrued liabilities of \$3,513,560; patient and insurance refunds payable of \$121,643; unclaimed refunds payable of \$85,724; long-term bonds payable of \$57,182,779; long-term capital lease obligations of \$2,608,863; current maturities of long-term debt of \$5,190,967 and net pension liability of \$1,714,373.

The \$4,874,211 net decrease in total liabilities for 2017 was attributed mainly to the decrease in construction and bonds payable. The construction payable decrease resulted from finishing the third phase of the Master Facilities Plan construction project at the end of the year. The reduction in bonds payable was driven by the scheduled debt service payment. The District did not issue additional debt during 2017.

The \$3,484,341 net decrease in total liabilities for 2016 was attributed mainly to the decrease in capital lease obligations and bonds payable. The capital lease obligation decrease resulted from the cancellation of the electronic medical record integration initiative between the District and University of Colorado Health (UC Health). This integration included the purchase of the right to use their electronic medical record system (EPIC), as well as, their accounting system (Lawson/Infor). The District has continued its clinical integration initiative through the contracting of UC Health's specialists to provide new health care specialties to the residents of the Roaring Fork Valley. The District did not issue additional debt during 2016. However, on August 11, 2016, the District refunded its Revenue Bonds – Series 2007 through the issuance of a Refunding Revenue Note – Series 2016, held by NBH Bank. The net effect of the transactions resulted in a reduction in debt service of \$1,277,203. The proceeds from the bonds were used to refund the Revenue Bonds – Series 2007, to fund the Reserve Fund for the Refunding Note – Series 2016 and to pay expenses related to the refunding.

The \$6,857,663 net increase in total liabilities for 2015 was attributed mainly to the increase in capital lease obligations and construction payable. The capital lease obligation increase resulted from the clinical integration initiative between the District and UC Health. This integration included the purchase of the right to use their electronic medical record system (EPIC), as well as, their accounting system (Lawson/Infor). The construction payable increase resulted from the construction commencement of the third phase of the Master Facilities Plan project, which has an expected date of completion of September 2017. The construction payable includes outstanding construction invoices and the related construction retainage. The District did not issue additional debt during 2015 related to the Master Facilities Plan.

The District reported unrestricted net position of \$55,347,418 in 2017, \$49,879,066 in 2016 and \$64,612,921 in 2015. The increases in total net position of \$6,458,708 from 2016, \$5,835,435 from 2015 and \$16,514,099 from 2014 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 nonoperating revenues. Operating revenues consist of net patient service revenues and other revenues. Net patient service revenues result from direct patient care.

Net patient service revenues increased \$5,344,399 or 6.3% in 2017 compared to \$5,132,172 or 6.6% in 2016. Net patient service revenue for 2017 in total was \$90,073,218 compared to \$84,728,819 in 2016 and \$79,596,647 in 2015. The increase in revenues during 2017 resulted primarily from the continued growth of OrthoAspen orthopedic clinic which opened in January 2016 plus four additional clinics that opened in 2017 (Ophthalmology, Ear, Nose & Throat, Endocrinology and Rheumatology). These clinics generated increased revenues of \$12,440,451 during 2017. There were increases in volumes in the emergency department (\$1.5M), laboratory (\$556K), pharmacy (\$1.1M), and CT Scan (\$1.1M). Inpatient revenues decreased primarily in the obstetrics unit by \$386K. In contrast, there were increases in outpatient surgeries that resulted in an increase in surgery revenues of \$1.9M, which gave rise to an increase in the acuity of the patients (the level of severity of the illness) of 4.6%. The increase in revenues during 2016 resulted primarily from the opening of the OrthoAspen orthopedic clinic on January 10, 2016. This clinic generated increased revenues of \$9,259,926 during 2016. There were increases in volumes in the emergency department (\$750K), MRI (\$882K) and CT Scan (\$684K). Inpatient revenues increased primarily in the obstetrics unit by \$500K. In contrast, there were decreases in inpatient surgeries that resulted in a decrease in surgery revenues of \$1.9M, which gave rise to a decrease in the acuity of the patients (the level of severity of the illness) of 12%. The increase in revenues during 2015 resulted primarily from increased outpatient volumes in the emergency department (\$1.6M), pharmacy (\$1.1M), laboratory (\$600K), orthopedic clinic (\$500K), MRI (\$500K), CT Scan (\$600K) and radiology (\$200K). Inpatient revenues increased primarily in the patient care unit by \$500K. In addition, the acuity of the patients (the level of severity of the illness) increased by 7% in 2015.

The District's outpatient service revenues continue to exceed the inpatient service revenues, with 81% of the District's 2017 patient service revenue generated by outpatient services, compared to 79% in 2016 and 75% in 2015. The departments contributing most to outpatient revenues during these years were Outpatient Surgeries, Emergency Room, Laboratory, Diagnostic Imaging and Outpatient Clinics.

The payer mix for the District has changed somewhat compared to prior years' experience. The largest portion of the District's patient service revenues were derived from commercial health plans, 54% during 2017 and 56% during 2016 and 55% during 2015. In addition, the District derived 30% of gross revenues from Medicare in 2017 and 2016 compared to 28% in 2015. 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 2017, the District received \$208,782 of fees from the Aspen Ambulance District, related to the management of their operations, compared to \$211,918 of fees received in 2016 and \$247,114 in 2015. The increase in other operating revenues for 2017 resulted from increased health fair income, rents at their assisted living facility, Whitcomb Terrace, and employee housing units. The decrease in other operating revenues for 2016 resulted from decreased reference lab fees and decreased medical office space rental. The District did experience increases in rents at their assisted living facility, Whitcomb Terrace, and the cafeteria business. The increase in other operating revenues for 2015 resulted from additional revenues from increased cafeteria business and the new employee housing complex, Castle Creek Meadows, constructed during the second phase of the Master Facilities Plan.

Nonoperating revenues and expenses are comprised of ad valorem taxes, investment income, interest expense, community assistance programs, noncapital contributions, change in equity interest in joint ventures, change in equity interest in ASC and MIC and gain/loss on sale of capital assets. Nonoperating revenues and expenses for 2017 were \$7,707,878 compared to \$3,574,775 in 2016 and \$5,351,353 for 2015. The \$4,133,103 increase in nonoperating revenues during 2017 was mainly driven by an increase in noncapital contributions of \$1,369,101 and an increase in investment income of \$209,719. There were also significant decreases in loss on sale of assets of \$2,647,347; change in equity interests in ASC and MIC of \$544,282; community assistance programs payments of \$331,014; ad valorem tax proceeds of \$32,865; interest expense of \$131,239 and in change in equity interest in joint venture \$21,830. The \$1,776,578 decrease in nonoperating revenues during 2016 was mainly driven by an increase in loss on disposal of capital assets of \$2,449,079, resulting from the cancellation of the electronic medical record integration initiative between the District and UC Health. There were also significant increases in ad valorem tax proceeds of \$941,260, community assistance programs payments of \$236,289 and in noncapital contributions of \$118,903; along with significant decreases in interest expense of \$215,536 and in change in equity interest in ASC and MIC of \$323,539. The \$662,375 decrease in nonoperating revenues during 2015 was mainly driven by an increase in ad valorem taxes of \$694,226, an increase in interest expense of \$697,363, an increase in community assistance program of \$258,505 and a decrease in the gain on equity interests in ASC and MIC of \$365,319.

Expenses

In 2017, operating expenses increased \$9,997,535 from the 2016 reported data. The factors giving rise to this increase were an increase in salaries and wages of \$2,848,207, a decrease in contract labor of \$701,826, an increase in supplies and other of \$4,438,562 and an increase in depreciation and amortization of \$3,412,592. The most significant factors causing the increases in the salaries and wages were the hiring of two new physicians, an Otorhinolaryngologist and an Ophthalmologist to work in the District's new Ear, Nose & Throat and Ophthalmology clinics, which opened in February of 2017. The expansion of the new and current clinics required additional staffing to sustain the increased patient volumes. The District also experienced increases in outpatient volumes, generating increases in wages in the ambulance department, diagnostic imaging departments, cardiopulmonary and rehabilitation services departments. Within the supplies and other increase, there was an increase in physician fees of \$341,075 (resulting from an increase in our emergency department utilization and expansion of our sleep studies clinic); an increase in patient care supplies of \$159,081; an increase in advertising and marketing of \$223,175 (generated by additional marketing for Aspen Valley Hospital and Aspen Valley Hospital Foundation); an increase in employee benefits of \$2,415,356 (resulting from an increase in pension expense and an increase in group health expense due to unpredicted catastrophic claims); an increase in legal, consulting and audit of \$19,651; an increase in maintenance and utilities of \$255,053 (driven by maintenance contracts and utilities); an increase in small furniture and minor equipment of \$31,585; an increase in rent and storage of \$88,736 (resulting from leased space in the Mid-Valley area for the outpatient clinics off-campus locations) and an increase in miscellaneous expense of \$904,565 (driven primarily by the Medicaid Provider Fee charged by the state of Colorado).

In 2016, operating expenses increased \$9,893,909 from the 2015 reported data. The factors giving rise to this increase were an increase in salaries and wages of \$5,578,904, an increase in contract labor of \$1,566,150, an increase in supplies and other of \$2,829,535 and a decrease in depreciation and amortization of \$80,680. The most significant factors causing the increases in the salaries and wages were the hiring of five orthopedic physicians to work on the District's new orthopedic clinic, OrthoAspen, which opened in July of 2015 with the hiring of the first orthopedic physician, who was a hand surgeon. In addition, the expansion of the orthopedic clinic required additional staffing to sustain the increased patient volumes. The District also experienced increases in obstetrics and outpatient volumes, generating increases in wages in the obstetrics department, emergency department and diagnostic imaging departments. Within the supplies and other increase, there was a decrease in physician fees of \$371,220

(resulting from a restructuring of the obstetricians and the orthopedic physicians coverage and the hiring of the second hospitalist during 2015); a decrease in patient care supplies of \$28,807; an increase in advertising and marketing of \$114,049 (generated by additional marketing for Aspen Valley Hospital Foundation); an increase in dues, subscriptions and licenses of \$101,198 (resulting from additional application support licenses needed for the District's virtual desktop interfaces, the legacy system being developed to store historical data from the current electronic medical record and cyber security); an increase in legal, consulting and audit of \$180,807 (resulting from a legal settlement); an increase in outsourcing of \$1,103,075 (driven by additional outsourcing of some functions in the IT department and increased accounts receivable collections from MedAssist); an increase in maintenance and utilities of \$404,465 (driven by maintenance contracts and utilities); a decrease in small furniture and minor equipment of \$23,502; an increase in rent and storage of \$197,618 (resulting from leased space in the Mid-Valley area for the new orthopedic clinic off-campus location); an increase in employee benefits of \$1,296,167 (driven by an increase in group health expense due to the additional staffing required for the orthopedic clinic and increased pension expense) and a decrease in miscellaneous expense of \$114,315 (driven primarily by the Medicaid Provider Fee charged by the state of Colorado).

In 2015, operating expenses increased \$5,864,890 from the 2014 reported data. The factors giving rise to this increase were an increase in salaries and wages of \$1,934,676, an increase in contract labor of \$11,411, an increase in supplies and other of \$1,081,196 and an increase in depreciation and amortization of \$2,837,607. The most significant factors causing the increases in the salaries and wages were the opening of our OrthoAspen Clinic which involved hiring our first orthopedic physician and clinic staff, the hiring of our second hospitalist and expansion of our social worker program. Additionally, increases in outpatient volumes generated increases in wages in the emergency department, ambulance and pharmacy. Within the supplies and other increase, there was an increase in patient care supplies of \$759,107 (resulting from drug expense, laboratory and OrthoAspen supplies); a decrease in physician fees of \$360,066 (resulting from a restructuring of the orthopedic physicians coverage and the stabilization of the general surgery program); an increase in advertising and marketing of \$67,407 (generated by additional sponsorships); an increase in dues, subscriptions and licenses of \$110,335 (resulting from a new pharmacy subscription, the new payroll processing being in place for an entire year and medical records support for the ICD-10 implementation); a decrease in legal, consulting and audit of \$244,826; an increase in outsourcing of \$408,131 (driven by the outsourcing of some functions in the IT department); an increase in maintenance and utilities of \$198,162 (driven by maintenance contracts and utilities); a decrease in small furniture and minor equipment of \$68,773 (due to the completion of Phase II of the Master Facilities Plan); a decrease in rent and storage of \$17,878; a decrease in employee benefits of \$275,791 (driven by a reduction in group health expense) and an increase in miscellaneous expense of \$239,114 (driven primarily by the Medicaid Provider Fee tax charged by the state of Colorado).

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 copayments) not covered by their primary insurance. The District estimates 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 2017, the District reported a provision for uncollectible accounts of \$3,399,529, compared to \$2,643,219 for 2016 and \$2,234,207 for 2015. The increase in provision during both 2017 and 2016 resulted from increased revenues and continued increase in patient population with coverage under high-deductible health insurance plans. The District's low write-off percentage from gross revenues of 2.7% for 2017 and 2.3% for 2016 is a result of a combination of MedAssist's collection efforts and the District's robust financial assistance program. The decrease in provision during 2015 resulted from a more aggressive collection strategy on travel insurance balances and having a lower self-pay payer mix resulting from having a large patient population covered under the Medicaid program that was previously uninsured or underinsured. The District's estimate for allowance for uncollectible accounts is based on MedAssist's 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 2017 were \$1,985,863 or 1.6% of gross patient service revenues, compared to \$1,952,050 or 1.7% of gross patient service revenue during 2016 and \$1,573,440 or 1.5% of gross patient service revenue for 2015. The increase in charity and indigent care write-offs resulted from an increase in uninsured and underinsured patients that are covered by high-deductible health insurance plans. Write-offs driven by uninsured patients were 82%, while 10% were underinsured and 7% were patients covered under a government insurance plan. The decrease in charity and indigent care write-offs during 2015 and 2014 resulted from the decrease in uninsured patients that are now covered under either Medicaid or high-deductible insurance plans.

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, 2017, 2016 and 2015:

Cash Flows	2017	2016	2015
Operating activities	\$ 7,196,275	\$ 9,782,253	\$ 15,749,738
Noncapital financing activities	5,847,200	4,114,456	3,391,156
Capital and related financing activities	(12,334,876)	(30,520,106)	(13,050,175)
Investing activities	<u>(8,894,513)</u>	<u>(3,158,384)</u>	<u>747,118</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ (8,185,914)</u>	<u>\$ (19,781,781)</u>	<u>\$ 6,837,837</u>

In 2017, the District's cash flow from operations decreased \$2,585,978 as compared to 2016, resulting from increased receipts from and on behalf of patients of \$5,558,174, increased payments to suppliers of \$4,402,141 (a decrease in cash), increased payments to employees of \$3,081,034 (a decrease in cash) and a decrease in other receipts of \$660,977. In 2016, the District's cash flow from operations decreased \$5,967,485 as compared to 2015, resulting from increased receipts from and on behalf of patients of \$5,108,583, increased payments to suppliers of \$6,065,777 (a decrease in cash), increased payments to employees of \$5,374,682 (a decrease in cash) and an increase in other receipts of \$364,391. In 2015, the District's cash flow from operations increased \$7,853,349 as compared to 2014, resulting from increased receipts from and on behalf of patients of \$7,004,637, decreased payments to suppliers of \$1,974,449 (an increase in cash), increased payments to employees of \$995,318 (a decrease in cash) and decreased in other receipts of \$130,409.

Noncapital financing reflects an increase in cash flows in 2017 of \$1,732,744, resulting from an increase in ad valorem tax receipts of \$32,629 (an increase in cash), a decrease in community assistance programs of \$331,014 (an increase in cash) and an increase in noncapital contributions of \$1,369,101. Noncapital financing reflects an increase in cash flows in 2016 of \$723,300, resulting from an increase in ad valorem tax receipts of \$840,686 (an increase in cash), an increase in community assistance programs of \$236,289 (a decrease in cash) and an increase in noncapital contributions of \$118,903. In 2015, noncapital financing reflects a decrease in cash flows of \$221,971 resulting from an increase in ad valorem tax receipts of \$993 (an increase in cash), an increase in community assistance programs of \$258,505 (a decrease in cash) and an increase in noncapital contributions of \$35,541 (an increase in cash).

In 2017, the net cash used in capital and related financing activities decreased by \$18,185,230 primarily due to a decrease in ad valorem tax receipts of \$67,156, a decrease in the purchase of capital assets of \$18,198,415 due to the completion of the third phase of the Master Facilities Plan (an increase in cash), an increase in proceeds from the sale of capital assets of \$251,211 (an increase in cash), a decrease in proceeds from refunding of long-term debt of \$9,015,000, a decrease in refunding of Series 2007 bond of \$8,855,000 (an increase in cash), a decrease in principal payments on long-term debt of \$1,519,046 (an increase in cash), a decrease in interest payments on long-term debt of \$299,086 (an increase in cash) and a decrease in capital contributions of \$1,855,372 (a decrease in cash). In 2016, the net cash used in capital and related financing activities increased by \$17,469,931 primarily due to an increase in ad valorem tax receipts of \$91,394, an increase in the purchase of capital assets of \$16,086,806 due to the continuation of the third phase of the Master Facilities Plan (a decrease in cash), a decrease in proceeds from the sale of capital assets of \$26,457 (a decrease in cash), an increase in proceeds from issuance of long-term debt of \$9,015,000, an increase in refunding of Series 2007 bond of \$8,855,000 (a decrease in cash), an increase in principal payments on long-term debt of \$1,645,509 (a decrease in cash), a decrease in interest payments on long-term debt of \$93,766 (an increase in cash) and a decrease in capital contributions of \$56,319 (a decrease in cash). In 2015, the net cash used in capital and related financing activities increased by \$5,939,090 primarily due to an increase in ad valorem tax receipts of \$657,529, an increase in the purchase of capital assets of \$4,382,777 (a decrease in cash), an increase in proceeds from the sale of capital assets of \$26,595 (an increase in cash), an increase in principal payments on long-term debt of \$88,653 (a decrease in cash), an increase in interest payments on long-term debt of \$695,881 (a decrease in cash) and a decrease in capital contributions of \$1,455,903 (a decrease in cash).

In 2017, investing activities reflected a decrease in cash flows of \$5,736,129 as compared to 2016 from an increase in purchases of investments of \$9,130,150 (a decrease in cash), an increase in proceeds from sale of investments of \$100 (an increase in cash), an increase in investment income of \$217,267 (an increase in cash), a decrease in acquisition of additional interest in ASC and MIC of \$3,240,782 (an increase in cash) and a decrease in member distributions of \$64,128. In 2016, investing activities reflected a decrease in cash flows of \$3,905,502 as compared to 2015 from an increase in purchases of investments of \$664 (a decrease in cash), a decrease in proceeds from sale of investments of \$30,929 (a decrease in cash), a decrease in investment income of \$56,494 (a decrease in cash), an increase in acquisition of additional interest in ASC and MIC of \$3,240,782 in order to become sole owners in these entities (a decrease in cash) and a decrease in member distributions of \$576,633. In 2015, investing activities reflected a decrease in cash flows of \$551,456 as compared to 2014 from an increase in purchases of investments of \$110,812 (a decrease in cash), a decrease in proceeds from sale of investments of \$929,867 (a decrease in cash), a decrease in investment income of \$184,456 (a decrease in cash), an increase in transfer of equity of \$960,923 (an increase in cash) and a decrease in member distributions of \$287,244.

Outstanding Debt Securities

The District did not issue additional debt in 2017. On August 11, 2016, the District refunded its Revenue Bonds – Series 2007 in the amount of \$9,071,742, through the issuance of its Refunding Note – Series 2016 in the amount of \$9,015,000. The proceeds from the bonds were used to refund the Revenue Bonds – Series 2007, to fund the Reserve Fund for the Refunding Note – Series 2016 and to pay expenses related to the issuance of the Note.

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 Variable Rate Demand Revenue Bonds – Series 2003 to fund the Reserve Fund for the Refunding Revenue Bonds – Series 2012 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 and was completed during 2015. The District commenced construction of the third phase of the Master Facilities Plan in April of 2015 and completed it at the end of 2017. The third phase of the Master Facilities Plan was funded from both cash reserves and philanthropy. The District will not commence construction on the last phase of the Master Facilities Plan until the funds are raised through philanthropy.

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 2018 and 2017 budgets during the last quarter of the 2017 and 2016 calendar years, respectively. There were no amendments made to the original budgets presented to the State of Colorado for the calendar years 2017 and 2016.

During 2017, net patient service revenue was \$1,772,987 (1.9%) lower than budget, while operating expenses were \$3,497,272 (3.8%) higher than budget. In 2016, net patient service revenue was \$4,349,880 (4.9%) higher than budget, while operating expenses were \$1,445,932 (1.6%) higher than budget.

Please see page 54 for the statement of budgeted and actual revenues and expenses for the year ended December 31, 2017.

Economic Factors and Next Year's Budget

During 2017, the District continued to see declines in inpatient revenues and increases in outpatient revenues, which has been the pattern over the last few years. In 2015, outpatient revenues were 75.3% of total revenues; in 2016 outpatient revenues were 79% of total revenues; and in 2017 outpatient revenues were 80.8% of total revenues. The District has experienced changes in payer mix over a 4-year period. Commercial insurance represented 57% of gross patient revenues in 2014, while in 2017 commercial insurance represented only 54% of gross patient revenues. Medicare revenues were 28% of gross patient revenues in 2014, and 30% of gross patient revenues in 2017. Revenues related to indigent care have remained stable over the past 4 years representing 1.8% (\$1,724,252) of gross patient revenues in 2014, and in 2017 those revenues were 1.6% (\$1,985,863) of gross patient revenues. The stabilization in the amount of indigent care is due to the fact that the State of Colorado is a Medicaid expansion State under the *Affordable Care Act*. Consequently, many of the patients who were previously uninsured patients are now covered under Medicaid. The District continued to experience increasing volumes in Medicaid revenues during 2017. There was a 4.4% increase in Medicaid volumes compared to 2016. From 2016 to 2017, the District saw an increase in operating expenses of \$10 million. This increase was primarily driven by an increase in depreciation due to the completion of the third phase of the Master Facilities Plan of \$3,412,592 and an increase in salaries and contract labor of \$2,848,207 due to the opening of four new clinics: Ophthalmology, Ear, Nose & Throat, Rheumatology and Endocrinology.

In November of 2015, the District signed a clinical integration agreement with UC Health that contemplated providing the District opportunities for physician and nursing staff education, shared best practices with regard to clinical protocols, on-site specialists not currently available to patients in the area, and rights to use their electronic medical record. In December of 2016, the District discontinued its implementation of the electronic medical record, but continued its affiliation with UC Health for the other reasons enumerated above.

The District continues to outsource its billing office to MedAssist (a division of Firstsource Solutions) located in Belleville, Illinois. This arrangement continues to result in the extraordinary management of accounts receivable and resulting cash collections. Evidence of this is in the fact that net days in accounts receivable for the past three years have averaged 44 days.

Four of the five largest self-insured employers in Aspen, Colorado, joined together several years ago to form the Valley Health Alliance. This alliance has as its objective the development of programs and protocols that will lower health care costs and enhance the patient experience while increasing health care quality in the Aspen community. This alliance is governed by a Board that continues to implement various initiatives that advance its objectives.

In constructing the District's 2018 budget, management took into account the effects of the local and national economy, the anticipated changes in volumes in both outpatient and inpatient populations, anticipated changes in reimbursement and lastly, the philanthropic efforts of Aspen Valley Hospital Foundation. In addition, the District continues to experience growth in its Orthopedic Clinic, OrthoAspen, and expects additional growth in the four new clinics that opened in 2017. The budget reflects the expected increase in additional outpatient revenues from these clinics. As a result of these assumptions, gross patient service revenues for 2018 are budgeted to increase by approximately 8% over the 2017 levels; and operating expenses are expected to increase by approximately 2.6%, generating an anticipated net position after contributions for 2018 of \$8.7 million, which is 1% lower than 2017.

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 2017, 2016 and 2015 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 Ginette Sebenaler, Aspen Valley Hospital District's Chief Financial Officer, at 0401 Castle Creek Road, Aspen, Colorado 81611.

Aspen Valley Hospital District
Balance Sheets
December 31, 2017 and 2016

Assets and Deferred Outflows of Resources

	2017		2016	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Current Assets				
Cash and cash equivalents	\$ 16,494,400	\$ 481,682	\$ 20,685,464	\$ 356,094
Short-term investments	26,723,084	-	17,481,458	-
Patient accounts receivable, net	10,798,160	340,563	10,351,270	491,172
Estimated amounts due from third-party payers	2,521,744	-	1,785,654	-
Other receivables	1,000,061	5,314	816,116	9,224
Inventories	2,293,479	166,438	2,176,626	183,135
Prepaid expenses	971,660	-	1,202,578	-
Total current assets	<u>60,802,588</u>	<u>993,997</u>	<u>54,499,166</u>	<u>1,039,625</u>
Noncurrent Cash and Investments				
Internally designated for capital acquisitions	-	-	2,980,799	-
Restricted by donors for capital acquisitions	611,222	-	1,670,734	-
Restricted by donors for specific operating activities	134,519	-	104,028	-
Contributions receivable, net	4,169,559	-	4,233,691	-
Contributions receivable held by Aspen Community Foundation	162,500	-	162,500	-
Held by Aspen Community Foundation for capital acquisitions	404	-	551	-
Bond funds restricted for capital acquisitions	300,243	-	300,173	-
Held by trustee for debt service	2,164,153	-	2,149,253	-
	<u>7,542,600</u>	<u>-</u>	<u>11,601,729</u>	<u>-</u>
Capital Assets, Net	<u>154,371,660</u>	<u>244,587</u>	<u>154,666,675</u>	<u>281,477</u>
Other Assets				
Equity interest in joint venture	248,260	-	220,287	-
Equity interests in ASC and MIC	3,651,562	-	3,950,544	-
Other	354,196	-	354,196	-
	<u>4,254,018</u>	<u>-</u>	<u>4,525,027</u>	<u>-</u>
Total assets	<u>226,970,866</u>	<u>1,238,584</u>	<u>225,292,597</u>	<u>1,321,102</u>
Deferred Outflows of Resources				
Pensions	3,663,256	-	3,647,700	-
Unamortized loss on refunding 2007 bonds	409,343	-	492,842	-
Unamortized loss on refunding 2003 bonds	139,121	-	149,968	-
	<u>4,211,720</u>	<u>-</u>	<u>4,290,510</u>	<u>-</u>
Total assets and deferred outflows of resources	<u><u>\$ 231,182,586</u></u>	<u><u>\$ 1,238,584</u></u>	<u><u>\$ 229,583,107</u></u>	<u><u>\$ 1,321,102</u></u>

See Notes to Financial Statements

Liabilities, Deferred Inflows of Resources and Net Position

	2017		2016	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Current Liabilities				
Current maturities of long-term debt	\$ 3,573,110	\$ -	\$ 2,991,011	\$ -
Accounts payable	3,993,016	428	4,054,655	30,399
Estimated amounts due to third-party payers	88,129	-	-	-
Accrued salaries, benefits and payroll taxes	2,496,361	-	2,443,194	-
Other accrued liabilities	1,508,125	388,780	1,433,732	136,378
Refunds payable	195,868	-	78,582	-
Unclaimed refunds payable	27,704	-	65,492	-
Construction payable	2,172,126	-	5,078,085	-
Total current liabilities	14,054,439	389,208	16,144,751	166,777
Long-term Debt				
Bonds payable	51,851,509	-	55,114,627	-
Capital lease obligations	723,943	-	417,472	-
	52,575,452	-	55,532,099	-
Net Pension Liability				
	3,277,092	-	3,104,344	-
Total liabilities	69,906,983	389,208	74,781,194	166,777
Deferred Inflows of Resources				
Pensions	23,366	-	8,384	-
Net Position				
Net investment in capital assets	98,662,462	244,587	96,593,706	281,477
Restricted - expendable for				
Debt service	2,164,153	-	2,149,253	-
Capital acquisitions	4,943,685	-	6,067,476	-
Specific operating activities	134,519	-	104,028	-
Unrestricted	55,347,418	604,789	49,879,066	872,848
Total net position	161,252,237	849,376	154,793,529	1,154,325
Total liabilities, deferred inflows of resources and net position	<u>\$ 231,182,586</u>	<u>\$ 1,238,584</u>	<u>\$ 229,583,107</u>	<u>\$ 1,321,102</u>

Aspen Valley Hospital District
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017		2016	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Operating Revenues				
Net patient service revenue	\$ 90,073,218	\$ 1,898,491	\$ 84,728,819	\$ 2,291,343
Other	2,645,192	-	2,416,711	-
Total operating revenues	<u>92,718,410</u>	<u>1,898,491</u>	<u>87,145,530</u>	<u>2,291,343</u>
Operating Expenses				
Salaries and wages	37,656,414	668,846	34,808,207	595,972
Contract labor	2,209,767	-	2,911,593	-
Supplies and other	44,813,341	1,517,147	40,374,779	1,392,934
Depreciation and amortization	13,161,593	30,801	9,749,001	64,912
Total operating expenses	<u>97,841,115</u>	<u>2,216,794</u>	<u>87,843,580</u>	<u>2,053,818</u>
Operating Income (Loss)	<u>(5,122,705)</u>	<u>(318,303)</u>	<u>(698,050)</u>	<u>237,525</u>
Nonoperating Revenues (Expenses)				
Ad valorem taxes	8,004,350	-	8,037,215	-
Investment income	300,341	13,354	90,622	7,777
Interest expense	(2,099,794)	-	(2,231,033)	-
Community assistance programs	(329,645)	-	(660,659)	-
Noncapital contributions	1,853,319	-	484,218	-
Change in equity interest in joint venture	74,598	-	52,768	-
Change in equity interests in ASC and MIC	(298,982)	-	245,300	-
Gain (loss) on sale of capital assets	203,691	-	(2,443,656)	-
Total nonoperating revenues	<u>7,707,878</u>	<u>13,354</u>	<u>3,574,775</u>	<u>7,777</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Contributions, (Provision) Credit for Uncollectible Capital				
Contributions and Member Distributions	2,585,173	(304,949)	2,876,725	245,302
Capital contributions	3,942,933	-	2,548,122	-
(Provision) credit for uncollectible capital contributions	(69,398)	-	410,588	-
Member distributions	-	-	-	(125,739)
Change in Net Position	<u>6,458,708</u>	<u>(304,949)</u>	<u>5,835,435</u>	<u>119,563</u>
Net Position, Beginning of Year	<u>154,793,529</u>	<u>1,154,325</u>	<u>148,958,094</u>	<u>1,034,762</u>
Net Position, End of Year	<u>\$ 161,252,237</u>	<u>\$ 849,376</u>	<u>\$ 154,793,529</u>	<u>\$ 1,154,325</u>

Aspen Valley Hospital District
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017		2016	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Operating Activities				
Receipts from and on behalf of patients	\$ 89,057,865	\$ 2,049,100	\$ 83,499,691	\$ 2,237,913
Payments to suppliers	(46,969,130)	(1,270,100)	(42,566,989)	(1,261,413)
Payments to employees	(37,431,073)	(668,846)	(34,350,039)	(595,972)
Other receipts (payments), net	2,538,613	3,910	3,199,590	(4,224)
Net cash provided by operating activities	<u>7,196,275</u>	<u>114,064</u>	<u>9,782,253</u>	<u>376,304</u>
Noncapital Financing Activities				
Ad valorem taxes	4,323,526	-	4,290,897	-
Community assistance programs	(329,645)	-	(660,659)	-
Noncapital contributions	1,853,319	-	484,218	-
Member distributions	-	-	-	(125,739)
Net cash provided by (used in) noncapital financing activities	<u>5,847,200</u>	<u>-</u>	<u>4,114,456</u>	<u>(125,739)</u>
Capital and Related Financing Activities				
Ad valorem taxes	3,676,299	-	3,743,455	-
Purchases of capital assets	(15,081,683)	(1,830)	(33,280,098)	(13,302)
Proceeds from sale of capital assets	252,236	-	1,025	-
Proceeds from refunding of long-term debt	-	-	9,015,000	-
Refunding of Series 2007 bonds	-	-	(8,855,000)	-
Principal payments on long-term debt	(3,038,123)	-	(4,557,169)	-
Interest payments on long-term debt	(2,081,272)	-	(2,380,358)	-
Capital contributions	3,937,667	-	5,793,039	-
Net cash used in capital and related financing activities	<u>(12,334,876)</u>	<u>(1,830)</u>	<u>(30,520,106)</u>	<u>(13,302)</u>
Investing Activities				
Purchase of investments	(9,241,626)	-	(111,476)	-
Proceeds from sale of investments	147	-	47	-
Investment income	346,966	13,354	129,699	7,777
Acquisition of additional interests in ASC and MIC	-	-	(3,240,782)	-
Member distributions	-	-	64,128	-
Net cash provided by (used in) investing activities	<u>(8,894,513)</u>	<u>13,354</u>	<u>(3,158,384)</u>	<u>7,777</u>
Increase (Decrease) Cash and Cash Equivalents	(8,185,914)	125,588	(19,781,781)	245,040
Cash and Cash Equivalents, Beginning of Year	27,890,451	356,094	47,672,232	111,054
Cash and Cash Equivalents, End of Year	<u>\$ 19,704,537</u>	<u>\$ 481,682</u>	<u>\$ 27,890,451</u>	<u>\$ 356,094</u>

Aspen Valley Hospital District
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	2017		2016	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Reconciliation of Cash and Cash Equivalents to the Balance Sheets				
Cash and cash equivalents	\$ 16,494,400	\$ 481,682	\$ 20,685,464	\$ 356,094
Internally designated for capital acquisitions	-	-	2,980,799	-
Restricted by donors for capital acquisitions	611,222	-	1,670,734	-
Restricted by donors for specific operating	134,519	-	104,028	-
Bond funds restricted for capital acquisitions	300,243	-	300,173	-
Held by trustee for debt service	2,164,153	-	2,149,253	-
	<u>\$ 19,704,537</u>	<u>\$ 481,682</u>	<u>\$ 27,890,451</u>	<u>\$ 356,094</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating income (loss)	\$ (5,122,705)	\$ (318,303)	\$ (698,050)	\$ 237,525
Depreciation and amortization	13,161,593	30,801	9,749,001	64,912
Provision for uncollectible accounts	3,399,529	-	2,643,219	-
Change in operating assets and liabilities				
Patient accounts receivable	(3,846,419)	150,609	(3,558,067)	(53,430)
Contributions receivable	-	-	225,000	-
Other receivables	(179,420)	3,910	420,795	(4,224)
Inventories	(116,853)	16,697	75,955	33,521
Prepaid expenses	230,918	-	(21,933)	-
Other assets	-	-	65,072	-
Accounts payable	(61,639)	(22,052)	755,151	24,065
Accrued salaries, benefits and payroll taxes	53,167	-	325,906	-
Other accrued liabilities	74,393	252,402	(17,778)	73,935
Refunds payable	117,286	-	(43,061)	-
Unclaimed refunds payable	(37,788)	-	(20,232)	-
Estimated amounts due from and to third-party payers	(647,961)	-	(250,987)	-
Net pension liability	172,174	-	132,262	-
	<u>\$ 7,196,275</u>	<u>\$ 114,064</u>	<u>\$ 9,782,253</u>	<u>\$ 376,304</u>
Noncash Investing, Capital and Financing Activities				
Capital lease obligations for equipment	\$ 739,399	\$ -	\$ 441,656	\$ -
Capital asset acquisitions included in current liabilities	\$ 2,172,126	\$ -	\$ 5,078,085	\$ -
Amortization of loss on refunding	\$ 94,346	\$ -	\$ 22,804	\$ -
Amortization of bond premiums	\$ 75,824	\$ -	\$ 172,129	\$ -
Change in equity interests	\$ (224,384)	\$ -	\$ 298,068	\$ -

Aspen Valley Hospital District
Statements of Fiduciary Net Position
December 31, 2017 and 2016

	2017	2016
Assets		
Investments		
Large U.S. equity	\$ 8,514,932	\$ 7,298,939
Small/Mid U.S. equity	1,535,003	1,333,376
International equity	4,287,693	2,905,120
Balanced/Asset allocation	527,678	450,006
Fixed income	9,517,039	8,936,808
Other	1,558,860	1,334,516
Total investments	25,941,205	22,258,765
Total assets	25,941,205	22,258,765
Net Position Restricted for Pensions	\$ 25,941,205	\$ 22,258,765

Aspen Valley Hospital District
Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Additions		
Contributions:		
Employer	\$ 1,827,477	\$ 1,555,740
Other	-	8,354
Total contributions	1,827,477	1,564,094
Investment income:		
Net increase in fair value of investments	3,285,266	1,342,321
Less investment expense	(13,970)	(12,966)
Net income from investments	3,271,296	1,329,355
Total additions	5,098,773	2,893,449
Deductions		
Benefit payments	1,281,502	1,421,746
Administrative expense	134,831	68,397
Total deductions	1,416,333	1,490,143
Net increase in net position	3,682,440	1,403,306
Net Position Restricted for Pensions		
Beginning of year	22,258,765	20,855,459
End of year	\$ 25,941,205	\$ 22,258,765

Aspen Valley Hospital District

Notes to Financial Statements

December 31, 2017 and 2016

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 (CAH) located in Aspen, Colorado; Whitcomb Terrace, an assisted living facility; Mountain Oaks, Beaumont Lodge and Castle Creek Meadows, all 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.

Aspen Valley Hospital Foundation (the Foundation) is a legally separate, tax-exempt component unit of the District. The District is the sole corporate member of the Foundation. The Foundation's primary function is to raise and hold funds to support the District and its programs. The board of the Foundation is appointed by the District and has a minimum of three Directors; two of which are Hospital Board of Directors members and one is the Hospital's Chief Executive Officer. Any other Directors beyond these three are not appointed by the District, but rather a Nominating Committee. Although the District does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the District. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the District, the Foundation is considered a component unit of the District and is presented in the District's financial statements using the blending method. Separate financial statements of the Foundation are not available.

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 District owns 100% ownership interest in ASC. The Governing Body is comprised of five members. Such five members shall be described as follows: Hospital Chairperson of the Board of Directors, Hospital Director, Hospital Chief Executive Officer, Hospital Chief Financial Officer and a Medical Director of ASC as appointed by the Governing Body. The purpose of the District's interest in ASC is to further enhance the services provided by the District. ASC is considered a component unit of the District and is presented in the District's financial statements using the discrete presentation method. Separate financial statements of ASC are not available.

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 District owns 100% ownership interest in MIC. The Governing Body is comprised of five members. Such five members shall be described as follows: Hospital Chairperson of the Board of Directors, Hospital Director, Hospital Chief Executive Officer, Hospital Chief Financial Officer and a Medical Director of MIC as appointed by the Governing Body. The purpose of the District's interest in MIC is to further enhance the services provided by the District. MIC is considered a component unit of the District and is presented in the District's financial statements using the discrete presentation method. Separate financial statements of MIC are not available.

Aspen Valley Hospital District

Notes to Financial Statements

December 31, 2017 and 2016

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 and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary 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 or voluntary nonexchange transactions. Government-mandated or voluntary 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, liabilities and deferred inflows and outflows of resources 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, 2017 and 2016, cash equivalents consisted primarily of money market accounts with financial institutions.

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

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, Equity Interests and Investment Income

Investments in money market investments (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. The equity interests in ASC, MIC and a joint venture are reported using the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income consists predominantly of interest 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.

Investments included in the Cash Balance Retirement Plan (the Plan) are comprised of pooled separate accounts (PSAs) and are reported at estimated fair value using net asset value (NAV) per share of the PSAs as the practical expedient of fair value. PSAs can be redeemed on a daily basis. Securities traded on a national international exchange are valued at the last reported sales price at current exchange rates. Real estate assets are reported at estimated fair value utilizing an income approach to valuation.

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.

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

Inventories

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition 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

Construction contracts of approximately \$50,200,000 exist for the Hospital expansion Phase III. At December 31, 2017, the remaining commitment on these contracts is approximately \$700,000.

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

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

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

Defined Benefit Pension Plan

The District has a single-employer defined benefit pension plan, the Cash Balance Retirement Plan, (the Plan). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources

The District reports consumption of net position that relates to future periods as deferred outflows of resources in a separate section of its balance sheets.

Deferred Inflows of Resources

The District reports acquisition of net position that relates to future periods as deferred inflows of resources in a separate section of its balance sheets.

Net Position

Net position of the District is classified in three components. Net investment in capital assets consists 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. 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.

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

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 \$1,985,863 and \$1,952,050 for 2017 and 2016, respectively.

Ad Valorem Taxes

The District received approximately 3% of its sources of funds from ad valorem taxes related to the general operating mill levy in both years ending 2017 and 2016. These funds were used to support the operating and capital needs of the District. The District received approximately 3% of its sources of funds from ad valorem taxes related to the general obligation bond and interest mill levy in 2017 and 2016, respectively.

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.

Note 2: 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 CAH. 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.

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

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.

Approximately 36% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2017 and 2016. 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.

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

	2017	2016
Gross patient service revenue	\$ 123,879,494	\$ 114,113,135
Less		
Medicare contractual adjustments	11,173,690	9,239,793
Medicaid contractual adjustments	3,765,742	2,551,003
Other contractals and adjustments	13,481,452	12,998,251
Charity care	1,985,863	1,952,050
Provision for uncollectible accounts	3,399,529	2,643,219
Net patient service revenue	<u>\$ 90,073,218</u>	<u>\$ 84,728,819</u>

Note 3: Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government’s deposits may not be returned to it. The District’s deposit policy for custodial credit risk requires compliance with the provisions of state law.

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, 2017 and 2016, \$1,250,000 and \$1,000,000 of the District’s bank balances of \$45,834,090 and \$45,204,095 were insured by FDIC coverage, respectively. The remainder of the District’s bank balances of \$44,584,090 and \$44,204,095, respectively, were protected by the *Colorado Public Deposit Protection Act* noted above.

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

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, 2017 and 2016, investments, not including fiduciary fund assets, amounted to \$2,164,153 and \$2,149,253, respectively. 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 (*i.e.*, money markets). Investments held by the Aspen Community Foundation are invested in money markets. These investments are carried at amortized cost and have maturities of less than one year.

Fiduciary fund assets of \$25,941,205 and \$22,258,765 at December 31, 2017 and 2016, respectively, are invested in PSAs and are reported at estimated fair value using NAV per share of the PSAs. None of the funds are subject to concentration of credit risk, custodial credit risk or foreign currency risk.

Summary of Carrying Values

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

	<u>2017</u>	<u>2016</u>
Carrying value		
Deposits	\$ 44,260,913	\$ 43,220,198
Investments	2,164,153	2,149,253
Fiduciary fund assets	25,941,205	22,258,765
Cash on hand and change funds	<u>2,959</u>	<u>3,009</u>
	<u>\$ 72,369,230</u>	<u>\$ 67,631,225</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 16,494,400	\$ 20,685,464
Short-term investments	26,723,084	17,481,458
Internally designated for capital acquisitions	-	2,980,799
Restricted by donors for capital acquisitions	611,222	1,670,734
Restricted by donors for specific operating activities	134,519	104,028
Held by Aspen Community Foundation	404	551
Bond funds restricted for capital acquisitions	300,243	300,173
Held by trustee under bond agreement	2,164,153	2,149,253
Held by trustee under pension plan agreement (fiduciary fund assets)	<u>25,941,205</u>	<u>22,258,765</u>
	<u>\$ 72,369,230</u>	<u>\$ 67,631,225</u>

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

Note 4: 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:

	2017	2016
Medicare	\$ 2,967,156	\$ 2,355,123
Medicaid	407,723	891,768
Blue Cross	2,456,427	1,985,779
Other third-party payers	4,855,745	4,862,292
Self-pay	787,724	958,490
	<u>11,474,775</u>	<u>11,053,452</u>
Less allowance for uncollectible accounts	<u>676,615</u>	<u>702,182</u>
	<u><u>\$ 10,798,160</u></u>	<u><u>\$ 10,351,270</u></u>

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2017				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 267,057	\$ -	\$ -	\$ -	\$ 267,057
Land improvements	17,613,381	-	-	9,142,831	26,756,212
Buildings	51,381,681	-	-	20,041,707	71,423,388
Fixed equipment	39,184,416	-	-	24,904,993	64,089,409
Moveable equipment	35,899,120	802,689	(942,806)	2,207,580	37,966,583
Employee housing	13,318,133	2,749	-	102,733	13,423,615
Construction in progress	54,690,632	12,322,101	(47,939)	(56,399,844)	10,564,950
	<u>212,354,420</u>	<u>13,127,539</u>	<u>(990,745)</u>	<u>-</u>	<u>224,491,214</u>
Less accumulated depreciation					
Land improvements	2,967,349	1,676,358	-	-	4,643,707
Buildings	15,178,197	3,526,752	-	-	18,704,949
Fixed equipment	8,863,512	4,412,636	-	-	13,276,148
Moveable equipment	25,498,858	3,093,051	(742,294)	-	27,849,615
Employee housing	5,179,829	465,306	-	-	5,645,135
	<u>57,687,745</u>	<u>13,174,103</u>	<u>(742,294)</u>	<u>-</u>	<u>70,119,554</u>
Capital assets, net	<u><u>\$154,666,675</u></u>	<u><u>\$ (46,564)</u></u>	<u><u>\$ (248,451)</u></u>	<u><u>\$ -</u></u>	<u><u>\$154,371,660</u></u>

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

	2016				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 267,057	\$ -	\$ -	\$ -	\$ 267,057
Land improvements	17,614,228	-	(847)	-	17,613,381
Buildings	51,418,826	5,172	(42,317)	-	51,381,681
Fixed equipment	39,192,128	-	(7,712)	-	39,184,416
Moveable equipment	33,930,707	3,524,171	(1,555,758)	-	35,899,120
Employee housing	13,239,087	87,944	(8,898)	-	13,318,133
Construction in progress	28,749,262	30,435,441	(4,494,071)	-	54,690,632
	<u>184,411,295</u>	<u>34,052,728</u>	<u>(6,109,603)</u>	<u>-</u>	<u>212,354,420</u>
Less accumulated depreciation					
Land improvements	1,826,486	1,141,624	(761)	-	2,967,349
Buildings	12,768,211	2,448,071	(38,085)	-	15,178,197
Fixed equipment	6,091,103	2,779,933	(7,524)	-	8,863,512
Moveable equipment	24,113,896	2,916,986	(1,532,024)	-	25,498,858
Employee housing	4,726,340	462,387	(8,898)	-	5,179,829
	<u>49,526,036</u>	<u>9,749,001</u>	<u>(1,587,292)</u>	<u>-</u>	<u>57,687,745</u>
Capital assets, net	<u>\$134,885,259</u>	<u>\$ 24,303,727</u>	<u>\$ (4,522,311)</u>	<u>\$ -</u>	<u>\$ 154,666,675</u>

Note 6: 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, an accrual of \$196,554 and \$295,498 has been recorded as of December 31, 2017 and 2016, respectively. 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.

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

Note 7: 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 \$175,000 for the years ended December 31, 2017 and 2016, 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 employee health claims liability during 2017 and 2016 is summarized as follows:

	2017	2016
Balance, beginning of year	\$ 470,197	\$ 549,533
Current year claims incurred and changes in estimates for claims incurred in prior years	10,908,152	5,586,239
Claims and expenses paid	(10,672,597)	(5,665,575)
Balance, end of year	\$ 705,752	\$ 470,197

Note 8: 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, 2017 and 2016

Note 9: Long-term Debt

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

	2017					
	Beginning Balance	Additions	Payments	Ending Balance	Amounts Due Within One Year	Long-term Portion
2010 general obligation bonds	\$ 37,955,000	\$ -	\$ (2,205,000)	\$ 35,750,000	\$ 2,255,000	\$ 33,495,000
2012 revenue bonds	10,040,000	-	(60,000)	9,980,000	70,000	9,910,000
2016 refunding revenue note	9,015,000	-	(430,000)	8,585,000	865,000	7,720,000
Capital leases	636,375	739,399	(343,122)	1,032,652	308,707	723,945
	<u>57,646,375</u>	<u>739,399</u>	<u>(3,038,122)</u>	<u>55,347,652</u>	<u>3,498,707</u>	<u>51,848,945</u>
Unamortized premium on Series 2010 bonds	283,664	-	(32,930)	250,734	31,620	219,114
Unamortized premium on Series 2012 bonds	593,071	-	(42,895)	550,176	42,783	507,393
	<u>\$ 58,523,110</u>	<u>\$ 739,399</u>	<u>\$ (3,113,947)</u>	<u>\$ 56,148,562</u>	<u>\$ 3,573,110</u>	<u>\$ 52,575,452</u>
	2016					
	Beginning Balance	Additions	Payments	Ending Balance	Amounts Due Within One Year	Long-term Portion
2007 revenue bonds	\$ 8,855,000	\$ -	\$ (8,855,000)	\$ -	\$ -	\$ -
2010 general obligation bonds	40,080,000	-	(2,125,000)	37,955,000	2,205,000	35,750,000
2012 revenue bonds	10,040,000	-	-	10,040,000	60,000	9,980,000
2016 refunding revenue note	-	9,015,000	-	9,015,000	430,000	8,585,000
Capital leases	4,957,825	441,656	(4,763,106)	636,375	220,186	416,189
	<u>63,932,825</u>	<u>9,456,656</u>	<u>(15,743,106)</u>	<u>57,646,375</u>	<u>2,915,186</u>	<u>54,731,189</u>
Unamortized premium on Series 2007 bonds	95,939	-	(95,939)	-	-	-
Unamortized premium on Series 2010 bonds	317,879	-	(34,215)	283,664	32,930	250,734
Unamortized premium on Series 2012 bonds	635,966	-	(42,895)	593,071	42,895	550,176
	<u>\$ 64,982,609</u>	<u>\$ 9,456,656</u>	<u>\$ (15,916,155)</u>	<u>\$ 58,523,110</u>	<u>\$ 2,991,011</u>	<u>\$ 55,532,099</u>

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

Revenue Bonds – Series 2007

Hospital Refunding Revenue Bonds – Series 2007 payable in increasing varying annual installments through October 15, 2026, bearing interest rates of 4.375% to 4.75%, payable semiannually. 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 Hospital Refunding Revenue Bonds – Series 2007, 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, 2017 and 2016.

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 deferred outflow of resources in the balance sheets and is being amortized using the straight-line method over the life of the Series 2000 bonds.

The Hospital Refunding Revenue Bonds – Series 2007 were advance refunded during 2016 with the issuance of the Refunding Revenue Note – Series 2016.

General Obligation Bonds – 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 semiannually. 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 semiannually. 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.

Aspen Valley Hospital District
Notes to Financial Statements
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Revenue Bonds – Series 2012

Hospital Refunding Revenue Bonds – Series 2012 payable in increasing varying annual installments through April 15, 2033, bearing interest rates of 2.125% to 3.75% payable semiannually. 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 Refunding Revenue Bonds – Series 2012, the District defeased its outstanding Series 2003 bonds. Proceeds from the bonds were 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, 2017 and 2016.

The advance refunding of the Series 2003 bonds resulted in an overall future economic benefit 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 deferred outflow of resources in the balance sheets and is being amortized using the straight-line method over the life of the Series 2012 bonds.

Refunding Revenue Note – Series 2016

Refunding Revenue Note – Series 2016 payable in increasing varying annual installments through October 15, 2026, bearing interest rate of 2.210% payable semiannually. The Series 2016 note is issued pursuant to and is secured by the Bond Resolution. The note is a limited obligation payable solely from the net revenues derived from operations of the District.

Upon issuance and delivery of the Refunding Revenue Note – Series 2016, the District defeased its outstanding Series 2007 bonds. Proceeds from the bonds were used to pay the principal, interest and redemption premiums on the defeased bonds on August 8, 2016. This advance refunding transaction resulted in an extinguishment of debt since the District was legally released from its obligation on the Series 2007 bonds at the time of defeasance. There are no Series 2007 bonds outstanding which have not been called as of December 31, 2017.

The advance refunding of the Series 2007 bonds resulted in an overall future economic benefit for the District. However, an accounting loss of \$507,685 on the extinguishment of the long-term debt was recorded in 2016. This loss on refunding is shown as a deferred outflow of resources in the balance sheets and is being amortized using the straight-line method over the life of the Series 2016 note.

Aspen Valley Hospital District
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Capital Lease Obligations

The District has capitalized lease obligations at varying rates of imputed interest that are collateralized by leased equipment.

The debt service requirements as of December 31, 2017, are as follows:

Year Ending December 31,	General Obligation and Revenue Bonds Payable		Capital Leases	
	Principal	Interest	Principal	Interest
2018	\$ 3,190,000	\$ 2,628,063	\$ 308,707	\$ 21,688
2019	3,270,000	2,515,352	242,439	15,681
2020	3,355,000	2,395,001	245,416	9,880
2021	3,440,000	2,268,904	236,090	4,765
2022	3,545,000	2,135,651	-	-
2023-2027	19,525,000	8,088,268	-	-
2028-2032	16,450,000	2,616,018	-	-
2033	1,540,000	77,000	-	-
	<u>\$ 54,315,000</u>	<u>\$ 22,724,257</u>	<u>\$ 1,032,652</u>	<u>\$ 52,014</u>

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

	<u>2017</u>	<u>2016</u>
Major moveable equipment	\$ 1,319,470	\$ 1,054,956
Less accumulated depreciation	<u>314,555</u>	<u>447,899</u>
	<u>\$ 1,004,915</u>	<u>\$ 607,057</u>

Note 10: Charity Care

The costs of charity care provided under the District's charity care policy were \$1,525,866 and \$1,474,581 for 2017 and 2016, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges from the 2017 and 2016 interim Medicare cost reports, respectively, to the gross uncompensated charges.

Aspen Valley Hospital District
Notes to Financial Statements
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Note 11: Operating Leases

The District leases various facility spaces and equipment under operating leases expiring through 2019. Future minimum lease payments under these noncancelable leases at December 31, 2017, are:

2018	\$ 1,053,955
2019	<u>87,953</u>
Future minimum lease payments	<u>\$ 1,141,908</u>

Rental expense for all operating leases at December 31, 2017 and 2016, was \$1,217,398 and \$1,090,094, respectively.

Note 12: Aspen Community Foundation

The Aspen Community Foundation (ACF) is an independent nonprofit 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. There were no contributions received and held by ACF on behalf of the District for the years ending December 31, 2017 and 2016. All contributions received by ACF 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:

	<u>2017</u>	<u>2016</u>
Due within one year	\$ 200,000	\$ 200,000
Less		
Allowance for uncollectible contributions	<u>37,500</u>	<u>37,500</u>
	<u>\$ 162,500</u>	<u>\$ 162,500</u>

Note 13: Defined Contribution Plans

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 \$2,725,057 and \$2,524,459 for the years ended December 31, 2017 and 2016, respectively. The District does not make contributions to the 457(b) plan.

Aspen Valley Hospital District
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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 is calculated as of the contribution date and is equal to 50% of the employee's elective deferral contributions. The District's contributions, for purposes of all employees, excluding the Chief Executive Officer, does not exceed 2.5% of their annual compensation; 5% for purposes of the Chief Executive Officer. Contribution expense to the 401(a) plan was \$648,435 and \$542,444 for the years ended December 31, 2017 and 2016, respectively.

Note 14: Defined Benefit Plan

Plan Description

Plan administration. The District 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 pension plan wherein a separate cash balance account is established for each employee upon becoming a member of the Plan.

Management of the Plan consists of the Retirement Committee, which consists of such number of individuals as appointed by the Board of Directors or Chief Executive Officer of the Hospital, but in no case is less than three.

Plan membership. Pension plan membership consisted of the following, which includes employees covered by the benefit terms, at December 31:

	2017	2016
Inactive plan members or beneficiaries currently receiving benefits	9	8
Inactive plan members entitled to but not yet receiving benefits	205	201
Active plan members	378	318
	592	527

Aspen Valley Hospital District

Notes to Financial Statements

December 31, 2017 and 2016

Benefits Provided

The Plan provides retirement, disability and death benefits. Normal retirement benefits are attained at age 65, with a monthly annuity payable for life equal to the actuarial equivalent of the projected cash balance account projected with interest to the normal retirement date assuming that the interest credit rate in effect for future years will be the rate in effect on the date of determination. Plan members are allowed to obtain early retirement benefit after six years of vesting services. The benefit for early retirement is equal to the actuarial equivalent of the participant's accrued benefit on his early retirement age. Disability benefits are determined in the same manner as the employer's long-term disability plan after six years of vesting service, but are payable monthly until normal requirement, death or recovery and a deferred annuity payable at the normal retirement date and are the accrued benefit on the date of disability. Death benefits are payable as a monthly annuity to the spouse, deferred to participant's earliest retirement date if later than date of death in the amount of the present value of the participant's accrued benefit payable in the normal form. A single lump sum may be elected at any time in lieu of the life annuity.

Contributions

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.

Contributions to the Plan for years ended December 31, 2017 and 2016, were \$1,827,477 and \$1,555,740, respectively.

Pension Reporting

GASB 67 sets forth the requirements for governmental pension plan financial statement reporting, including pension plan financial statements included as a pension trust fund of a government. Accordingly, GASB 67 applies to the District's reporting of its statements of fiduciary net position, statements of changes in fiduciary net position, certain notes to the financial statements, and certain required supplementary information (RSI). GASB 68, adopted in 2015, sets forth the pension reporting requirements for the District in its balance sheets, statements of revenues, expenses and changes in net position, statements of cash flows, certain notes to the financial statements and certain RSI. Because different measurement dates are used for GASB 67 and GASB 68 (GASB 68 is one year earlier than GASB 67), GASB 68 disclosures will correspond to the District's basic financial statements, except for the fiduciary fund statements reported under GASB 67.

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

GASB STATEMENT NO. 67

Investments

Investment policy. The Plan’s policy in regard to the allocation of invested assets is established and may be amended by the District Board by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan’s investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. It also allows the use of derivatives.

Principal Financial Advisors, Inc., a registered investment advisor and wholly-owned subsidiary of Principal Financial Group, has been hired to manage the asset allocation for the Plan. The following was the Board’s adopted asset allocation policy as of December 31:

Asset Class	2017 Target Allocation	2016 Target Allocation
U.S. equity - Large cap	34.00%	36.00%
U.S. equity - Mid cap	4.00%	4.00%
U.S. equity - Small cap	2.00%	2.00%
Non-U.S. equity	15.00%	13.00%
Real estate (direct property)	6.00%	6.00%
TIPS	1.00%	1.00%
Core bond	28.00%	28.00%
High yield	10.00%	10.00%
Total	<u>100%</u>	<u>100%</u>

Concentrations. The following are investments (other than those issued or explicitly guaranteed by the U.S. Government), in any one organization, that represent five percent or more of the of the Plan’s fiduciary net position at December 31:

	2017	2016
Principal Financial Group	<u>\$ 25,941,205</u>	<u>\$ 22,258,765</u>

Separate accounts held at the Principal Financial Group are commingled pools, rather than individual securities. As a result, these accounts are not rated.

Rate of return. The money-weighted rate of return is calculated as a rate of return on the plan investments incorporating the timing and amount of cash flows, net of investment expense. For the years ended December 31, 2017 and 2016, the annual money-weighted rate of return on plan investments was 14.45% and 6.41%, respectively.

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

Net Pension Liability of the District

The components of the net pension liability of the District were as follows at December 31:

	<u>2017</u>	<u>2016</u>
Total pension liability	\$ 26,499,256	\$ 25,535,857
Plan fiduciary net position	<u>(25,941,205)</u>	<u>(22,258,765)</u>
District's net pension liability	<u>\$ 558,051</u>	<u>\$ 3,277,092</u>
Plan fiduciary net position as percentage of the total pension liability	97.89%	87.17%

Actuarial assumptions. The 2017 total pension liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to December 31, 2017, and the 2016 total pension liability was determined by an actuarial valuation as of December 31, 2015, rolled forward to December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, respectively:

	<u>2017</u>	<u>2016</u>
Long-term inflation, wage base, and compensation limit	2.00%	2.00%
Salary increases	Table S-5 from Actuary's Pension Handbook plus 1.00%	
Investment rate of return	6.00%	7.00%

Mortality rates for the years ended 2017 and 2016 were based on the RP-2014 Mortality with Scale MP-2017 and MP-2016, respectively, – Generational Annuitant, Male and Female.

Aspen Valley Hospital District
Notes to Financial Statements
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The long-term expected rate of return on pension plan investments was determined by using the actual weighted average asset allocation for the four quarterly dates from March 31, 2017 to December 31, 2017. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation are summarized in the following table as of December 31:

Asset Class	2017 Long-term Expected Rate of Return	2016 Long-term Expected Rate of Return
U.S. equity - Large cap	7.85%	7.85%
U.S. equity - Mid cap	8.10%	8.10%
U.S. equity - Small cap	8.55%	8.55%
Non-U.S. equity	8.10%	8.10%
Real estate (direct property)	5.80%	5.80%
TIPS	3.05%	3.05%
Core bond	3.75%	3.75%
High yield	6.70%	6.70%

Discount rate. The discount rate used to measure the total pension liability at December 31, 2017 and 2016, was 6.00% and 7.00%, respectively. The Plan's fiduciary net position and benefit payments were projected to determine the discount rate. Projected fiduciary net position includes expected employer contributions, projected benefit and administrative payments and expected investment return. Projected benefit payments are based on plan provisions and participant data as of the measurement date, and include the effects of automatic cost-of-living adjustments, projected salary changes and projected service credits. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the District, calculated using the discount rate of 6.00%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1% lower (5.00%) or 1% higher (7.00%) than the current rate as of:

	December 31, 2017		
	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
District's net pension liability	\$ 2,033,677	\$ 558,051	\$ (748,780)

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

GASB STATEMENT NO. 68

Net Pension Liability of the District

Actuarial assumptions. The net pension liability reported as of December 31, 2017 and 2016, was measured as of December 31, 2016 and 2015, respectively, using the total pension liability that was determined by actuarial valuations as of December 31, 2015 and 2014, respectively, rolled forward to December 31, 2016 and 2015, respectively, using the following actuarial assumptions:

	<u>2017</u>	<u>2016</u>
Long-term inflation, wage base, and compensation limit	2.00%	2.25%
Salary increases	Table S-5 from Actuary's Pension Handbook plus 1.00%	Table S-5 from Actuary's Pension Handbook plus 1.00%
Investment rate of return	7.00%	7.00%

Mortality rates for the years ended 2017 and 2016 were based on the RP-2014 Mortality with Scale MP-2016 and MP-2015, respectively, – Generational Annuitant, Male and Female.

The long-term expected rate of return on pension plan investments was determined by using the actual weighted average asset allocation for the four quarterly dates from March 31, 2016 to December 31, 2016. The target allocation and best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation are summarized in the following table as of December 31, 2016:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Rate of Return</u>
U.S. equity - Large cap	36.00%	7.85%
U.S. equity - Mid cap	4.00%	8.10%
U.S. equity - Small cap	2.00%	8.55%
Non-U.S. equity	13.00%	8.10%
Real estate (direct property)	6.00%	5.80%
TIPS	1.00%	3.05%
Core bond	28.00%	3.75%
High yield	10.00%	6.70%
	<u>100%</u>	

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

Discount rate. The discount rate used to measure the total pension liability at December 31, 2017 and 2016, was 7.00%. The Plan's fiduciary net position and benefit payments were projected to determine the discount rate. Projected fiduciary net position includes expected employer contributions, projected benefit and administrative payments, and expected investment return. Projected benefit payments are based on plan provisions and participant data as of the measurement date, and include the effects of automatic cost-of-living adjustments, projected salary changes and projected service credits. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

	December 31, 2017		
	Increases (Decreases)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
Balances, beginning of year	\$ 23,959,803	\$ 20,855,459	\$ 3,104,344
Changes for the year			
Service cost	1,020,686	-	1,020,686
Interest	1,695,279	-	1,695,279
Benefit payments	(1,421,746)	(1,421,746)	-
Differences between expected and actual experience	314,061	-	314,061
Changes of assumptions	(22,423)	-	(22,423)
Changes of benefit terms	(9,803)	-	(9,803)
Employer contributions	-	1,555,740	(1,555,740)
Other contributions	-	8,354	(8,354)
Net investment income	-	1,329,355	(1,329,355)
Administrative expenses	-	(68,397)	68,397
Net changes	1,576,054	1,403,306	172,748
Balances, end of year	\$ 25,535,857	\$ 22,258,765	\$ 3,277,092

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

	December 31, 2016		
	Increases (Decreases)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
Balances, beginning of year	\$ 22,203,356	\$ 20,488,983	\$ 1,714,373
Changes for the year			
Service cost	962,923	-	962,923
Interest	1,590,521	-	1,590,521
Benefit payments	(836,696)	(836,696)	-
Differences between expected and actual experience	50,485	-	50,485
Changes of assumptions	(10,786)	-	(10,786)
Employer contributions	-	1,365,917	(1,365,917)
Net investment income	-	(156,525)	156,525
Administrative expenses	-	(6,220)	6,220
Net changes	<u>1,756,447</u>	<u>366,476</u>	<u>1,389,971</u>
Balances, end of year	<u>\$ 23,959,803</u>	<u>\$ 20,855,459</u>	<u>\$ 3,104,344</u>

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the District, calculated using the discount rate of 7.00%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate as of:

	December 31, 2017		
	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
District's net pension liability	\$ 4,785,478	\$ 3,277,092	\$ 1,953,378

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

For the years ended December 31, 2017 and 2016, the District recognized pension expense of \$2,050,699 and \$1,716,843, respectively. At December 31, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	December 31, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 482,993	\$ -
Changes in assumptions	139,283	23,366
Net differences between projected and actual earnings on pension plan investments	1,213,503	-
District's contributions subsequent to the measurement date	1,827,477	-
Total	<u>\$ 3,663,256</u>	<u>\$ 23,366</u>

	December 31, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 372,311	\$ -
Changes in assumptions	219,332	8,384
Net differences between projected and actual earnings on pension plan investments	1,500,317	-
District's contributions subsequent to the measurement date	1,555,740	-
Total	<u>\$ 3,647,700</u>	<u>\$ 8,384</u>

At December 31, 2017, the District reported \$1,827,477 as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability at December 31, 2018.

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	
2018	\$ 693,576
2019	641,154
2020	422,038
2021	<u>55,645</u>
	<u>\$ 1,812,413</u>

Payable to the Pension Plan

At December 31, 2017 and 2016, the District reported a payable of \$185,988 and \$0, respectively, for the outstanding amount of contributions to the Plan required for the years ended December 31, 2017 and 2016.

Note 15: 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 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.

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

Note 16: Condensed Combining Information

The following tables include condensed combining balance sheet information for the District and its component units as of December 31, 2017 and 2016:

	2017						
	Blended Component Unit			Discretely Presented Component Units			
	Aspen Valley Hospital	Aspen Valley Hospital Foundation	Eliminations	Total	Midvalley Ambulatory Surgery Center, LLC	Midvalley Imaging Center, LLC	Total
Assets and Deferred							
Outflows of Resources							
Current assets	\$ 66,101,592	\$ (5,299,004)	\$ -	\$ 60,802,588	\$ 652,787	\$ 341,210	\$ 993,997
Noncurrent cash and investments	3,317,446	4,225,154	-	7,542,600	-	-	-
Capital assets, net	154,371,660	-	-	154,371,660	57,354	187,233	244,587
Other assets	4,254,018	-	-	4,254,018	-	-	-
Total assets	228,044,716	(1,073,850)	-	226,970,866	710,141	528,443	1,238,584
Deferred outflows of resources	4,211,720	-	-	4,211,720	-	-	-
Total assets and deferred outflows of resources	\$ 232,256,436	\$ (1,073,850)	\$ -	\$ 231,182,586	\$ 710,141	\$ 528,443	\$ 1,238,584
Liabilities, Deferred Inflows of Resources and Net Position							
Current liabilities	\$ 14,054,439	\$ -	\$ -	\$ 14,054,439	\$ 374,054	\$ 15,154	\$ 389,208
Long-term debt	52,575,452	-	-	52,575,452	-	-	-
Net pension liability	3,277,092	-	-	3,277,092	-	-	-
Total liabilities	69,906,983	-	-	69,906,983	374,054	15,154	389,208
Deferred inflows of resources	23,366	-	-	23,366	-	-	-
Net position	162,326,087	(1,073,850)	-	161,252,237	336,087	513,289	849,376
Total liabilities, deferred inflows of resources and net position	\$ 232,256,436	\$ (1,073,850)	\$ -	\$ 231,182,586	\$ 710,141	\$ 528,443	\$ 1,238,584

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

	2016						
	Blended Component Unit			Discretely Presented Component Units			
	Aspen Valley Hospital	Aspen Valley Hospital Foundation	Eliminations	Total	Midvalley Ambulatory Surgery Center, LLC	Midvalley Imaging Center, LLC	Total
Assets and Deferred							
Outflows of Resources							
Current assets	\$ 58,195,733	\$ (3,696,567)	\$ -	\$ 54,499,166	\$ 812,541	\$ 227,084	\$ 1,039,625
Noncurrent cash and investments	6,613,851	4,987,878	-	11,601,729	-	-	-
Capital assets, net	154,666,675	-	-	154,666,675	76,073	205,404	281,477
Other assets	4,525,027	-	-	4,525,027	-	-	-
Total assets	224,001,286	1,291,311	-	225,292,597	888,614	432,488	1,321,102
Deferred outflows of resources	4,290,510	-	-	4,290,510	-	-	-
Total assets and deferred outflows of resources	\$ 228,291,796	\$ 1,291,311	\$ -	\$ 229,583,107	\$ 888,614	\$ 432,488	\$ 1,321,102
Liabilities, Deferred Inflows of Resources and Net Position							
Current liabilities	\$ 16,144,751	\$ -	\$ -	\$ 16,144,751	\$ 161,381	\$ 5,396	\$ 166,777
Long-term debt	55,532,099	-	-	55,532,099	-	-	-
Net pension liability	3,104,344	-	-	3,104,344	-	-	-
Total liabilities	74,781,194	-	-	74,781,194	161,381	5,396	166,777
Deferred inflows of resources	8,384	-	-	8,384	-	-	-
Net position	153,502,218	1,291,311	-	154,793,529	727,233	427,092	1,154,325
Total liabilities, deferred inflows of resources and net position	\$ 228,291,796	\$ 1,291,311	\$ -	\$ 229,583,107	\$ 888,614	\$ 432,488	\$ 1,321,102

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2017 and 2016

The following tables include condensed combining statements of revenues, expenses and changes in net position information for the District and its component units for the years ended December 31, 2017 and 2016:

	2017						
	Blended Component Unit			Discretely Presented Component Units			
	Aspen Valley Hospital	Aspen Valley Hospital Foundation	Eliminations	Total	Midvalley Ambulatory Surgery Center, LLC	Midvalley Imaging Center, LLC	Total
Operating revenues	\$ 92,791,251	\$ -	\$ (72,841)	\$ 92,718,410	\$ 1,416,745	\$ 481,746	\$ 1,898,491
Operating expenses	96,408,834	1,505,122	(72,841)	97,841,115	1,808,891	407,903	2,216,794
Operating income (loss)	(3,617,583)	(1,505,122)	-	(5,122,705)	(392,146)	73,843	(318,303)
Nonoperating revenues	5,920,918	1,786,960	-	7,707,878	1,000	12,354	13,354
Excess (deficiency) of revenues over expenses	2,303,335	281,838	-	2,585,173	(391,146)	86,197	(304,949)
Other	6,520,534	(2,646,999)	-	3,873,535	-	-	-
Change in net position	8,823,869	(2,365,161)	-	6,458,708	(391,146)	86,197	(304,949)
Net position, beginning of year	153,502,218	1,291,311	-	154,793,529	727,233	427,092	1,154,325
Net position, end of year	<u>\$ 162,326,087</u>	<u>\$ (1,073,850)</u>	<u>\$ -</u>	<u>\$ 161,252,237</u>	<u>\$ 336,087</u>	<u>\$ 513,289</u>	<u>\$ 849,376</u>

	2016						
	Blended Component Unit			Discretely Presented Component Units			
	Aspen Valley Hospital	Aspen Valley Hospital Foundation	Eliminations	Total	Midvalley Ambulatory Surgery Center, LLC	Midvalley Imaging Center, LLC	Total
Operating revenues	\$ 87,217,542	\$ -	\$ (72,012)	\$ 87,145,530	\$ 1,822,177	\$ 469,166	\$ 2,291,343
Operating expenses	86,508,895	1,406,697	(72,012)	87,843,580	1,700,331	353,487	2,053,818
Operating income (loss)	708,647	(1,406,697)	-	(698,050)	121,846	115,679	237,525
Nonoperating revenues	3,217,658	357,117	-	3,574,775	173	7,604	7,777
Excess (deficiency) of revenues over expenses	3,926,305	(1,049,580)	-	2,876,725	122,019	123,283	245,302
Other	7,331,586	(4,372,876)	-	2,958,710	(54,349)	(71,390)	(125,739)
Change in net position	11,257,891	(5,422,456)	-	5,835,435	67,670	51,893	119,563
Net position, beginning of year	142,244,327	6,713,767	-	148,958,094	659,563	375,199	1,034,762
Net position, end of year	<u>\$ 153,502,218</u>	<u>\$ 1,291,311</u>	<u>\$ -</u>	<u>\$ 154,793,529</u>	<u>\$ 727,233</u>	<u>\$ 427,092</u>	<u>\$ 1,154,325</u>

Aspen Valley Hospital District

Notes to Financial Statements

December 31, 2017 and 2016

The following tables include condensed combining statements of cash flows information for the District and its component units for the years ended December 31, 2017 and 2016:

	2017						
	Blended Component Unit				Discretely Presented Component Units		
	Aspen Valley Hospital	Aspen Valley Hospital Foundation	Eliminations	Total	Midvalley Ambulatory Surgery Center, LLC	Midvalley Imaging Center, LLC	Total
Net cash provided by (used in):							
Operating activities	\$ 7,197,165	\$ (890)	\$ -	\$ 7,196,275	\$ (9,872)	\$ 123,936	\$ 114,064
Noncapital financing activities	4,060,240	1,786,960	-	5,847,200	-	-	-
Capital and related financing activities	(16,262,543)	3,927,667	-	(12,334,876)	(1,830)	-	(1,830)
Investing activities	(2,383,979)	(6,510,534)	-	(8,894,513)	1,000	12,354	13,354
Increase (decrease) in cash and cash equivalents	(7,389,117)	(796,797)	-	(8,185,914)	(10,702)	136,290	125,588
Cash and cash equivalents, beginning of year	27,033,089	857,362	-	27,890,451	257,843	98,251	356,094
Cash and cash equivalents, end of year	<u>\$ 19,643,972</u>	<u>\$ 60,565</u>	<u>\$ -</u>	<u>\$ 19,704,537</u>	<u>\$ 247,141</u>	<u>\$ 234,541</u>	<u>\$ 481,682</u>

	2016						
	Blended Component Unit				Discretely Presented Component Units		
	Aspen Valley Hospital	Aspen Valley Hospital Foundation	Eliminations	Total	Midvalley Ambulatory Surgery Center, LLC	Midvalley Imaging Center, LLC	Total
Net cash provided by (used in):							
Operating activities	\$ 9,053,308	\$ 728,945	\$ -	\$ 9,782,253	\$ 274,878	\$ 101,426	\$ 376,304
Noncapital financing activities	3,757,339	357,117	-	4,114,456	(54,349)	(71,390)	(125,739)
Capital and related financing activities	(36,062,645)	5,542,539	-	(30,520,106)	(13,302)	-	(13,302)
Investing activities	4,149,051	(7,307,435)	-	(3,158,384)	173	7,604	7,777
Increase (decrease) in cash and cash equivalents	(19,102,947)	(678,834)	-	(19,781,781)	207,400	37,640	245,040
Cash and cash equivalents, beginning of year	46,136,036	1,536,196	-	47,672,232	50,443	60,611	111,054
Cash and cash equivalents, end of year	<u>\$ 27,033,089</u>	<u>\$ 857,362</u>	<u>\$ -</u>	<u>\$ 27,890,451</u>	<u>\$ 257,843</u>	<u>\$ 98,251</u>	<u>\$ 356,094</u>

Required Supplementary Information

Aspen Valley Hospital District
Schedule of Changes in the District's Net Pension Liability and Related Ratios
Cash Balance Retirement Plan
GASB Statement No. 67
Years Ended December 31

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability				
Service cost	\$ 1,117,611	\$ 1,020,686	\$ 962,923	\$ 1,013,451
Interest	1,834,455	1,695,279	1,590,521	1,416,739
Differences between expected and actual experience	(434,374)	314,061	50,485	576,188
Changes of assumptions	(272,791)	(22,423)	(10,786)	379,430
Changes of benefit terms	-	(9,803)	-	-
Benefit payments	(1,281,502)	(1,421,746)	(836,696)	(711,956)
Net change in total pension liability	963,399	1,576,054	1,756,447	2,673,852
Total pension liability - beginning	<u>25,535,857</u>	<u>23,959,803</u>	<u>22,203,356</u>	<u>19,529,504</u>
Total pension liability - ending (a)	<u>\$ 26,499,256</u>	<u>\$ 25,535,857</u>	<u>\$ 23,959,803</u>	<u>\$ 22,203,356</u>
Plan fiduciary net position				
Contributions - employer	\$ 1,827,477	\$ 1,555,740	\$ 1,365,917	\$ 1,158,533
Contributions - other	-	8,354	-	-
Net investment income (expense)	3,271,296	1,329,355	(156,525)	1,014,456
Benefit payments	(1,281,502)	(1,421,746)	(836,696)	(711,956)
Administrative expense	(134,831)	(68,397)	(6,220)	(2,130)
Net change in plan fiduciary net position	3,682,440	1,403,306	366,476	1,458,903
Plan fiduciary net position - beginning	<u>22,258,765</u>	<u>20,855,459</u>	<u>20,488,983</u>	<u>19,030,080</u>
Plan fiduciary net position - ending (b)	<u>\$ 25,941,205</u>	<u>\$ 22,258,765</u>	<u>\$ 20,855,459</u>	<u>\$ 20,488,983</u>
District's net pension liability - ending (a) - (b)	<u>\$ 558,051</u>	<u>\$ 3,277,092</u>	<u>\$ 3,104,344</u>	<u>\$ 1,714,373</u>
Plan fiduciary net position as a percentage of the total pension liability	97.89%	87.17%	87.04%	92.28%
Covered-employee payroll	\$ 30,308,890	\$ 26,159,424	\$ 23,424,173	\$ 20,859,646
District's net pension liability as a percentage of covered-employee payroll	1.84%	12.53%	13.25%	8.22%

Notes to Schedule:

GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25* was implemented during 2014 and therefore only 2014 through 2017 are the years in which information is available. This schedule will include ten-year trend information once available.

The covered-employee payroll shown in this statement is the reported payroll for the measurement period.

The long-term inflation, wage base, and compensation limit used in 2017 and 2016 was 2.00% while the rate used in 2015 and 2014 was 2.25%.

Aspen Valley Hospital District
Schedule of the District's Contributions
Cash Balance Retirement Plan
GASB Statements No. 67 and 68
Years Ended December 31

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 1,878,025	\$ 1,586,110	\$ 1,260,846	\$ 1,158,533
Contributions in relation to the actuarially determined contribution	<u>1,827,477</u>	<u>1,555,740</u>	<u>1,365,917</u>	<u>1,158,533</u>
Contribution deficiency (excess)	<u>\$ 50,548</u>	<u>\$ 30,370</u>	<u>\$ (105,071)</u>	<u>\$ -</u>
Covered-employee payroll	\$ 30,308,890	\$ 26,159,424	\$ 23,424,173	\$ 20,859,646
Contributions as a percentage of covered-employee payroll	6.03%	5.95%	5.83%	5.55%

Notes to Schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age			
Amortization method	Level percentage of payroll			
Remaining amortization period	10 years			
Asset valuation method	5-year smoothed market			
Long-term inflation	2.00%	2.00%	2.25%	2.25%
Salary increases	Table S-5 from Actuary Pension Handbook plus 1%			
Investment rate of return	6.00%	7.00%	7.00%	7.00%
Retirement age	Active and inactive participants are assumed to retire at Normal Retirement Age as defined in Plan Provisions.			
Mortality	RP-2014 - Generational Annuitant, Male and Female			
Scale	MP-2017	MP-2016	MP-2015	MP-2014

2013	2012	2011	2010	2009	2008
\$ 1,328,791	\$ 1,522,841	\$ 1,438,808	\$ 1,480,454	\$ 1,666,196	\$ 1,043,735
<u>1,328,791</u>	<u>1,522,841</u>	<u>1,438,808</u>	<u>1,508,000</u>	<u>1,675,000</u>	<u>1,130,713</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (27,546)</u>	<u>\$ (8,804)</u>	<u>\$ (86,978)</u>
\$ 21,581,130	\$ 20,295,889	\$ 20,262,974	\$ 19,358,574	\$ 18,360,934	\$ 17,094,569
6.16%	7.50%	7.10%	7.79%	9.12%	6.61%

Aspen Valley Hospital District
Schedule of Investment Returns
Cash Balance Retirement Plan
GASB Statement No. 67
Years Ended December 31

	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	14.45%	6.41%	-1.54%	5.34%

Notes to Schedule:

GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25* was implemented during 2014 and therefore only 2014 through 2017 are the years in which information is available. This schedule will include ten-year trend information once available.

Aspen Valley Hospital District
Schedule of Changes in the District's Net Pension Liability and Related Ratios
Cash Balance Retirement Plan
GASB Statement No. 68
Years Ended December 31

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability			
Service cost	\$ 1,020,686	\$ 962,923	\$ 1,013,451
Interest	1,695,279	1,590,521	1,416,739
Differences between expected and actual experience	314,061	50,485	576,188
Changes of assumptions	(22,423)	(10,786)	379,430
Changes of benefit terms	(9,803)	-	-
Benefit payments	<u>(1,421,746)</u>	<u>(836,696)</u>	<u>(711,956)</u>
Net change in total pension liability	1,576,054	1,756,447	2,673,852
Total pension liability - beginning	<u>23,959,803</u>	<u>22,203,356</u>	<u>19,529,504</u>
Total pension liability - ending (a)	<u>\$ 25,535,857</u>	<u>\$ 23,959,803</u>	<u>\$ 22,203,356</u>
Plan fiduciary net position			
Contributions - employer	\$ 1,555,740	\$ 1,365,917	\$ 1,158,533
Contributions - other	8,354	-	-
Net investment income	1,329,355	(156,525)	1,014,456
Benefit payments	(1,421,746)	(836,696)	(711,956)
Administrative expense	<u>(68,397)</u>	<u>(6,220)</u>	<u>(2,130)</u>
Net change in plan fiduciary net position	1,403,306	366,476	1,458,903
Plan fiduciary net position - beginning	<u>20,855,459</u>	<u>20,488,983</u>	<u>19,030,080</u>
Plan fiduciary net position - ending (b)	<u>\$ 22,258,765</u>	<u>\$ 20,855,459</u>	<u>\$ 20,488,983</u>
District's net pension liability - ending (a) - (b)	<u>\$ 3,277,092</u>	<u>\$ 3,104,344</u>	<u>\$ 1,714,373</u>
Plan fiduciary net position as a percentage of the total pension liability	87.17%	87.04%	92.28%
Covered-employee payroll	\$ 26,159,424	\$ 23,424,173	\$ 20,859,646
District's net pension liability as a percentage of covered-employee payroll	12.53%	13.25%	8.22%

Notes to Schedule:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68* was implemented during 2015 and therefore only 2015 through 2017 are the years in which information is available. This schedule will include ten-year trend information once available.

The covered-employee payroll shown in this statement is the reported payroll for the measurement period.

Supplementary Information

Aspen Valley Hospital District
Statement of Budgeted and Actual Revenues and Expenses
Year Ended December 31, 2017

	Budgeted Amount Original	Actual	Favorable (Unfavorable) Variance
Operating Revenues			
Net patient service revenue	\$ 91,846,205	\$ 90,073,218	\$ (1,772,987)
Other	2,534,785	2,718,033	183,248
Total operating revenues	<u>94,380,990</u>	<u>92,791,251</u>	<u>(1,589,739)</u>
Operating Expenses	<u>92,911,562</u>	<u>96,408,834</u>	<u>(3,497,272)</u>
Operating Income (Loss)	<u>1,469,428</u>	<u>(3,617,583)</u>	<u>(5,087,011)</u>
Nonoperating Revenues (Expenses)			
Ad valorem taxes	7,732,051	8,004,350	272,299
Investment income	369,000	300,341	(68,659)
Interest expense	(2,156,362)	(2,099,794)	56,568
Community assistance programs	(399,750)	(329,645)	70,105
Noncapital contributions	-	66,359	66,359
Change in equity interest in joint venture	50,000	74,598	24,598
Change in equity interests in ASC and MIC	-	(298,982)	(298,982)
Gain on sale of capital assets	-	203,691	203,691
Total nonoperating revenues	<u>5,594,939</u>	<u>5,920,918</u>	<u>325,979</u>
Excess of Revenues Over Expenses Before Capital Contributions and Transfers	<u>7,064,367</u>	<u>2,303,335</u>	<u>(4,761,032)</u>
Capital contributions	44,056	10,000	(34,056)
Transfers from related party	<u>7,600,000</u>	<u>6,510,534</u>	<u>(1,089,466)</u>
Change in Net Position	<u>\$ 14,708,423</u>	<u>\$ 8,823,869</u>	<u>\$ (5,884,554)</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.

Budgeted Amount Original and Actual columns only include the financial information for Aspen Valley Hospital District and not its blended or discretely presented component units.

Budgets are adopted by resolution in total. There were no supplemental budgets adopted during 2017.

Aspen Valley Hospital District
Combining Schedule – Balance Sheet Information
December 31, 2017

Assets and Deferred Outflows of Resources

	<u>Blended Component Unit</u>				<u>Discretely Presented Component Units</u>		
	<u>Aspen Valley</u>	<u>Aspen Valley</u>	<u>Eliminations</u>	<u>Total</u>	<u>Midvalley</u>	<u>Midvalley</u>	<u>Total</u>
	<u>Hospital</u>	<u>Hospital</u>			<u>Ambulatory</u>	<u>Imaging</u>	
	<u>Hospital</u>	<u>Foundation</u>			<u>Center, LLC</u>	<u>Center, LLC</u>	
Current Assets							
Cash and cash equivalents	\$ 16,489,430	\$ 4,970	\$ -	\$ 16,494,400	\$ 247,141	\$ 234,541	\$ 481,682
Short-term investments	26,723,084	-	-	26,723,084	-	-	-
Patient accounts receivable, net	10,798,160	-	-	10,798,160	239,208	101,355	340,563
Estimated amounts due from third-party payers	2,521,744	-	-	2,521,744	-	-	-
Due from (to) related party	5,332,876	(5,332,876)	-	-	-	-	-
Other receivables	971,159	28,902	-	1,000,061	-	5,314	5,314
Inventories	2,293,479	-	-	2,293,479	166,438	-	166,438
Prepaid expenses	971,660	-	-	971,660	-	-	-
Total current assets	<u>66,101,592</u>	<u>(5,299,004)</u>	<u>-</u>	<u>60,802,588</u>	<u>652,787</u>	<u>341,210</u>	<u>993,997</u>
Noncurrent Cash and Investments							
Restricted by donors for capital acquisitions	565,986	45,236	-	611,222	-	-	-
Restricted by donors for specific operating activities	124,160	10,359	-	134,519	-	-	-
Contributions receivable, net	-	4,169,559	-	4,169,559	-	-	-
Contributions receivable held by ACF	162,500	-	-	162,500	-	-	-
Held by Aspen Community Foundation for capital acquisitions	404	-	-	404	-	-	-
Bond funds restricted for capital acquisitions	300,243	-	-	300,243	-	-	-
Held by trustee for debt service	2,164,153	-	-	2,164,153	-	-	-
	<u>3,317,446</u>	<u>4,225,154</u>	<u>-</u>	<u>7,542,600</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital Assets, Net	<u>154,371,660</u>	<u>-</u>	<u>-</u>	<u>154,371,660</u>	<u>57,354</u>	<u>187,233</u>	<u>244,587</u>
Other Assets							
Equity interest in joint venture	248,260	-	-	248,260	-	-	-
Equity interests in ASC and MIC	3,651,562	-	-	3,651,562	-	-	-
Other	354,196	-	-	354,196	-	-	-
	<u>4,254,018</u>	<u>-</u>	<u>-</u>	<u>4,254,018</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>228,044,716</u>	<u>(1,073,850)</u>	<u>-</u>	<u>226,970,866</u>	<u>710,141</u>	<u>528,443</u>	<u>1,238,584</u>
Deferred Outflows of Resources							
Pensions	3,663,256	-	-	3,663,256	-	-	-
Unamortized loss on refunding 2007 bonds	409,343	-	-	409,343	-	-	-
Unamortized loss on refunding 2003 bonds	139,121	-	-	139,121	-	-	-
	<u>4,211,720</u>	<u>-</u>	<u>-</u>	<u>4,211,720</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 232,256,436</u>	<u>\$ (1,073,850)</u>	<u>\$ -</u>	<u>\$ 231,182,586</u>	<u>\$ 710,141</u>	<u>\$ 528,443</u>	<u>\$ 1,238,584</u>

Liabilities, Deferred Inflows of Resources and Net Position

	<u>Blended Component Unit</u>				<u>Discretely Presented Component Units</u>		
	<u>Aspen Valley Hospital</u>	<u>Aspen Valley Hospital Foundation</u>		<u>Total</u>	<u>Midvalley Ambulatory Surgery Center, LLC</u>	<u>Midvalley Imaging Center, LLC</u>	<u>Total</u>
		<u>Eliminations</u>					
Current Liabilities							
Current maturities of long-term debt	\$ 3,573,110	\$ -	\$ -	\$ 3,573,110	\$ -	\$ -	\$ -
Accounts payable	3,993,016	-	-	3,993,016	(1,340)	1,768	428
Estimated amounts due to third-party payers	88,129	-	-	88,129	-	-	-
Accrued salaries, benefits and payroll taxes	2,496,361	-	-	2,496,361	-	-	-
Other accrued liabilities	1,508,125	-	-	1,508,125	375,394	13,386	388,780
Refunds payable	195,868	-	-	195,868	-	-	-
Unclaimed refunds payable	27,704	-	-	27,704	-	-	-
Construction payable	2,172,126	-	-	2,172,126	-	-	-
Total current liabilities	14,054,439	-	-	14,054,439	374,054	15,154	389,208
Long-term Debt							
Bonds payable	51,851,509	-	-	51,851,509	-	-	-
Capital lease obligations	723,943	-	-	723,943	-	-	-
	52,575,452	-	-	52,575,452	-	-	-
Net Pension Liability	3,277,092	-	-	3,277,092	-	-	-
Total liabilities	69,906,983	-	-	69,906,983	374,054	15,154	389,208
Deferred Inflows of Resources							
Pensions	23,366	-	-	23,366	-	-	-
Net Position							
Net investment in capital assets	98,662,462	-	-	98,662,462	57,354	187,233	244,587
Restricted - expendable for							
Debt service	2,164,153	-	-	2,164,153	-	-	-
Capital acquisitions	728,890	4,214,795	-	4,943,685	-	-	-
Specific operating activities	124,160	10,359	-	134,519	-	-	-
Unrestricted	60,646,422	(5,299,004)	-	55,347,418	278,733	326,056	604,789
Total net position	162,326,087	(1,073,850)	-	161,252,237	336,087	513,289	849,376
Total liabilities, deferred inflows of resources and net position	\$ 232,256,436	\$ (1,073,850)	\$ -	\$ 231,182,586	\$ 710,141	\$ 528,443	\$ 1,238,584

Aspen Valley Hospital District
Combining Schedule – Revenues, Expenses and Changes
in Net Position Information
Year Ended December 31, 2017

	<u>Blended Component Unit</u>			<u>Discretely Presented Component Units</u>			
	<u>Aspen Valley Hospital</u>	<u>Aspen Valley Hospital Foundation</u>	<u>Eliminations</u>	<u>Total</u>	<u>Midvalley Ambulatory Surgery Center, LLC</u>	<u>Midvalley Imaging Center, LLC</u>	<u>Total</u>
Operating Revenues							
Net patient service revenue	\$ 90,073,218	\$ -	\$ -	\$ 90,073,218	\$ 1,416,745	\$ 481,746	\$ 1,898,491
Other	2,718,033	-	(72,841)	2,645,192	-	-	-
Total operating revenues	92,791,251	-	(72,841)	92,718,410	1,416,745	481,746	1,898,491
Operating Expenses							
Salaries and wages	37,110,626	545,788	-	37,656,414	571,658	97,188	668,846
Contract labor	2,014,419	195,348	-	2,209,767	-	-	-
Supplies and other	44,122,196	763,986	(72,841)	44,813,341	1,224,603	292,544	1,517,147
Depreciation and amortization	13,161,593	-	-	13,161,593	12,630	18,171	30,801
Total operating expenses	96,408,834	1,505,122	(72,841)	97,841,115	1,808,891	407,903	2,216,794
Operating Income (Loss)	(3,617,583)	(1,505,122)	-	(5,122,705)	(392,146)	73,843	(318,303)
Nonoperating Revenues (Expenses)							
Ad valorem taxes	8,004,350	-	-	8,004,350	-	-	-
Investment income	300,341	-	-	300,341	1,000	12,354	13,354
Interest expense	(2,099,794)	-	-	(2,099,794)	-	-	-
Community assistance programs	(329,645)	-	-	(329,645)	-	-	-
Noncapital contributions	66,359	1,786,960	-	1,853,319	-	-	-
Change in equity interest in joint venture	74,598	-	-	74,598	-	-	-
Change in equity interests in ASC and MIC	(298,982)	-	-	(298,982)	-	-	-
Gain on sale of capital assets	203,691	-	-	203,691	-	-	-
Total nonoperating revenues	5,920,918	1,786,960	-	7,707,878	1,000	12,354	13,354
Excess (Deficiency) of Revenues Over Expenses Before Capital Contributions, Credit for Uncollectible Capital Contributions, and Transfers							
Capital contributions	2,303,335	281,838	-	2,585,173	(391,146)	86,197	(304,949)
Credit for uncollectible capital contributions	10,000	3,932,933	-	3,942,933	-	-	-
Transfers	-	(69,398)	-	(69,398)	-	-	-
	6,510,534	(6,510,534)	-	-	-	-	-
Change in Net Position	8,823,869	(2,365,161)	-	6,458,708	(391,146)	86,197	(304,949)
Net Position, Beginning of Year	153,502,218	1,291,311	-	154,793,529	727,233	427,092	1,154,325
Net Position, End of Year	\$ 162,326,087	\$ (1,073,850)	\$ -	\$ 161,252,237	\$ 336,087	\$ 513,289	\$ 849,376

Aspen Valley Hospital District
Combining Schedule – Cash Flows Information
Year Ended December 31, 2017

	<u>Blended Component Unit</u>				<u>Discretely Presented Component Units</u>		
	Aspen Valley	Aspen Valley	Eliminations	Total	Midvalley	Midvalley	Total
	Hospital	Hospital			Ambulatory	Imaging	
	Hospital	Foundation			Surgery	Center, LLC	
Operating Activities							
Receipts from and on behalf of patients	\$ 89,057,865	\$ -	\$ -	\$ 89,057,865	\$ 1,549,100	\$ 500,000	\$ 2,049,100
Payments to suppliers	(46,009,796)	(959,334)	-	(46,969,130)	(987,314)	(282,786)	(1,270,100)
Payments to employees	(36,885,285)	(545,788)	-	(37,431,073)	(571,658)	(97,188)	(668,846)
Other receipts (payments), net	1,034,381	1,504,232	-	2,538,613	-	3,910	3,910
Net cash provided by (used in) operating activities	7,197,165	(890)	-	7,196,275	(9,872)	123,936	114,064
Noncapital Financing Activities							
Ad valorem taxes	4,323,526	-	-	4,323,526	-	-	-
Community assistance programs	(329,645)	-	-	(329,645)	-	-	-
Noncapital contributions	66,359	1,786,960	-	1,853,319	-	-	-
Net cash provided by noncapital financing activities	4,060,240	1,786,960	-	5,847,200	-	-	-
Capital and Related Financing Activities							
Ad valorem taxes	3,676,299	-	-	3,676,299	-	-	-
Purchases of capital assets	(15,081,683)	-	-	(15,081,683)	(1,830)	-	(1,830)
Proceeds from sale of capital assets	252,236	-	-	252,236	-	-	-
Principal payments on long-term debt	(3,038,123)	-	-	(3,038,123)	-	-	-
Interest payments on long-term debt	(2,081,272)	-	-	(2,081,272)	-	-	-
Capital contributions	10,000	3,927,667	-	3,937,667	-	-	-
Net cash provided by (used in) capital and related financing activities	(16,262,543)	3,927,667	-	(12,334,876)	(1,830)	-	(1,830)
Investing Activities							
Purchase of investments	(9,241,626)	-	-	(9,241,626)	-	-	-
Proceeds from sale of investments	147	-	-	147	-	-	-
Investment income	346,966	-	-	346,966	1,000	12,354	13,354
Transfer of equity	6,510,534	(6,510,534)	-	-	-	-	-
Net cash provided by (used in) investing activities	(2,383,979)	(6,510,534)	-	(8,894,513)	1,000	12,354	13,354
Increase (Decrease) in Cash and Cash Equivalents	(7,389,117)	(796,797)	-	(8,185,914)	(10,702)	136,290	125,588
Cash and Cash Equivalents, Beginning of Year	27,033,089	857,362	-	27,890,451	257,843	98,251	356,094
Cash and Cash Equivalents, End of Year	\$ 19,643,972	\$ 60,565	\$ -	\$ 19,704,537	\$ 247,141	\$ 234,541	\$ 481,682

Aspen Valley Hospital District
Combining Statement – Cash Flows Information (Continued)
Year Ended December 31, 2017

	<u>Blended Component Unit</u>				<u>Discretely Presented Component Units</u>		
	<u>Aspen Valley Hospital</u>	<u>Aspen Valley Hospital Foundation</u>	<u>Eliminations</u>	<u>Total</u>	<u>Midvalley Ambulatory Surgery Center, LLC</u>	<u>Midvalley Imaging Center, LLC</u>	<u>Total</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets							
Cash and cash equivalents	\$ 16,489,430	\$ 4,970	\$ -	\$ 16,494,400	\$ 247,141	\$ 234,541	\$ 481,682
Restricted by donors for capital acquisitions	565,986	45,236	-	611,222	-	-	-
Restricted by donors for specific operating activities	124,160	10,359	-	134,519	-	-	-
Bond funds restricted for capital acquisitions	300,243	-	-	300,243	-	-	-
Held by trustee for debt service	2,164,153	-	-	2,164,153	-	-	-
Total cash and cash equivalents	<u>\$ 19,643,972</u>	<u>\$ 60,565</u>	<u>\$ -</u>	<u>\$ 19,704,537</u>	<u>\$ 247,141</u>	<u>\$ 234,541</u>	<u>\$ 481,682</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities							
Operating income (loss)	\$ (3,617,583)	\$ (1,505,122)	\$ -	\$ (5,122,705)	\$ (392,146)	\$ 73,843	\$ (318,303)
Depreciation and amortization	13,161,593	-	-	13,161,593	12,630	18,171	30,801
Provision for uncollectible account:	3,399,529	-	-	3,399,529	-	-	-
Change in operating assets and liabilities							
Patient accounts receivable	(3,846,419)	-	-	(3,846,419)	132,355	18,254	150,609
Other receivables	(169,238)	(10,182)	-	(179,420)	-	3,910	3,910
Inventories	(116,853)	-	-	(116,853)	16,697	-	16,697
Prepaid expenses	230,918	-	-	230,918	-	-	-
Other assets	(1,514,414)	1,514,414	-	-	-	-	-
Accounts payable	(61,639)	-	-	(61,639)	(23,820)	1,768	(22,052)
Accrued salaries, benefits and payroll taxes	53,167	-	-	53,167	-	-	-
Other accrued liabilities	74,393	-	-	74,393	244,412	7,990	252,402
Refunds payable	117,286	-	-	117,286	-	-	-
Unclaimed refunds payable	(37,788)	-	-	(37,788)	-	-	-
Estimated amounts due from and to third-party payers	(647,961)	-	-	(647,961)	-	-	-
Net pension liability	172,174	-	-	172,174	-	-	-
Net cash provided by (used in) operating activities	<u>\$ 7,197,165</u>	<u>\$ (890)</u>	<u>\$ -</u>	<u>\$ 7,196,275</u>	<u>\$ (9,872)</u>	<u>\$ 123,936</u>	<u>\$ 114,064</u>
Noncash Investing, Capital and Financing Activities							
Capital lease obligations for equipment	\$ 739,399	\$ -	\$ -	\$ 739,399	\$ -	\$ -	\$ -
Capital asset acquisitions included in current liabilities	\$ 2,172,126	\$ -	\$ -	\$ 2,172,126	\$ -	\$ -	\$ -
Amortization of loss on refunding	\$ 94,346	\$ -	\$ -	\$ 94,346	\$ -	\$ -	\$ -
Amortization of bond premiums	\$ 75,824	\$ -	\$ -	\$ 75,824	\$ -	\$ -	\$ -
Change in equity interests	\$ (224,384)	\$ -	\$ -	\$ (224,384)	\$ -	\$ -	\$ -