

Aspen Valley Hospital District

Independent Auditor's Report and Financial Statements

December 31, 2013 and 2012



Aspen Valley Hospital District
December 31, 2013 and 2012

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Independent Auditor's Report

Board of Directors
Aspen Valley Hospital District
Aspen, Colorado

We have audited the accompanying basic financial statements of the business-type activities and the aggregate discretely presented component units, and the fiduciary fund information of Aspen Valley Hospital District as of and for the years ended December 31, 2013 and 2012, and the related notes to the basic financial statements, which collectively comprise Aspen Valley Hospital District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, and the fiduciary fund information of Aspen Valley Hospital District as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2013, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, which changed its method of reporting of equity interests in a component unit through retroactive application to prior year's financial statements. Also, as discussed *Note 1* to the financial statements, in 2013, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which changed its method of accounting for deferred financing costs through retroactive application to prior year's financial statements. Our opinion is not modified with respect to these 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 basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

Wichita, Kansas
April 7, 2014

Aspen Valley Hospital District

Management's Discussion and Analysis

Years Ended December 31, 2013 and 2012

Introduction

As management of Aspen Valley Hospital District, we offer readers of the financial statements this discussion and analysis of the financial activities of Aspen Valley Hospital District (the District) for the calendar years ended on December 31, 2013 and 2012.

The financial statements are presented in two columns – one for the District and one for Component Units. The Component Units column represents the financial statements of Aspen Valley Hospital Foundation and joint ventures that are owned in part by the District. Please see *Note 1* in the Notes to the Financial Statements for a complete explanation of these arrangements. For purposes of this discussion and analysis, the financial results of the 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:** provide information about the District's assets, liabilities, deferred inflows and outflows of resources and reflect the District's financial position as of December 31, 2013 and 2012.
- 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, 2013 and 2012.
- 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, 2013 and 2012.
- 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 and deferred outflows of resources at the end of 2013 were \$192,543,730 compared to \$179,864,438 for 2012 and \$162,094,315 at the end of 2011. The \$12,679,292 increase from 2012 total assets and deferred outflows of resources is attributable to the increase in cash and cash equivalents, patient accounts receivable, Aspen Valley Hospital Foundation receivable, third-party payer receivable, prepaid expenses, cash from contributions for capital and operating activities and other assets; and decreases in short-term investments, other receivables, cash internally designated for capital

acquisitions, cash held by Aspen Community Foundation, funds restricted for capital acquisitions and held by trustee for debt service. The \$17,770,123 increase from 2011 total assets is attributable to the increase in cash and cash equivalents, short-term investments, patient accounts receivable, prepaid expenses and capital assets; and decreases in contributions and other receivables, inventories, restricted assets and other assets.

At December 31, 2013, assets consisted primarily of cash and cash equivalents of \$30,934,799; short-term investments of \$18,222,946; net patient accounts receivable of \$8,617,397; contributions receivable held by Aspen Community Foundation of \$4,195,404; assets held by trustee for debt service of \$2,334,865 and net capital assets of \$119,029,441.

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

Comparable asset balances at December 31, 2011, consisted primarily of cash and cash equivalents of \$13,656,282; net patient accounts receivable of \$7,094,685; short-term investments of \$23,450,333; assets internally designated for capital acquisitions of \$18,758,172; bond funds restricted for capital acquisitions of \$27,706,704; assets held by trustee for debt service of \$2,441,273 and net capital assets of \$62,258,249. The \$17,750,091 increase in capital assets during 2013 resulted from the continuance of the Master Facilities Plan construction project which was funded in the majority by the proceeds of the 2010 General Obligation Bond Issuances, Series 2010A Tax-Exempt Bonds in the amount of \$12,045,000 and Series 2010B Taxable Direct Pay Build America Bonds in the amount of \$37,955,000. The bonds issued constitute general obligations of the District. All the taxable property located in the district is subject to the levy of an ad valorem tax to pay the principal, interest and premium on the bonds without limitation as to the rate and in an amount sufficient to pay the bonds when due. The proceeds of the bonds have been used to finance the acquisition, improvement, construction, equipping and furnishing of specific improvements to the District's facility, previously referred to as the Master Facilities Plan.

The continued stabilization in net patient accounts receivable and the increase in cash and cash equivalents during 2013, 2012 and 2011 resulted from the reliable revenue cycle management of Computer Sciences Corporation and Firstsource Solutions, two outside billing specialists. An emphasis on timely communication with third-party payers and effective claim management were instrumental for growth in cash and cash equivalents, investments and assets internally designated for capital acquisitions for 2013, 2012 and 2011.

The District's total liabilities at December 31, 2013, were \$77,352,035; noting accounts payable of \$2,873,403; construction payable of \$3,836,142; accrued liabilities of \$3,692,773; patient and insurance refunds payable of \$90,556; unclaimed refunds payable of \$85,734; long-term bonds payable of \$62,777,796; long-term capital lease obligations of \$979,632 and current maturities of long-term debt of \$3,015,999.

The District's total liabilities at December 31, 2012, were \$85,870,587; noting accounts payable of \$2,746,000; construction payable of \$9,527,123; accrued liabilities of \$3,563,518; patient and insurance refunds payable of \$84,719; unclaimed refunds payable of \$131,740; estimated amounts due to third-party payers of \$129,543; long-term bonds payable of \$65,467,746; long-term capital lease obligations of \$759,268 and current maturities of long-term debt of \$3,460,930.

At December 31, 2011, total liabilities were \$83,739,764; consisting primarily of accounts payable of \$2,010,181; construction payable of \$4,593,597; accrued liabilities of \$3,236,352; patient and insurance

refunds payable of \$131,576; unclaimed refunds payable of \$226,664; estimated amounts due to third-party payers of \$808,241; long-term bonds payable of \$67,859,743 and current maturities of \$3,155,920; long-term capital lease obligations of \$1,171,209 and long-term notes payable of \$546,281.

The \$8,518,552 net decrease in total liabilities for 2013 was attributed mainly to the decrease in construction payable and long-term debt. The construction payable decrease resulted from the construction of the final stages of Phase II of the Master Facilities Plan project which has an expected date of completion of July 31, 2014. The project's construction began in December 2010 and is expected to expand the facility by 62,200 square feet, while renovating another 26,330 square feet. These square footages do not include an additional 15,500 square feet in employee housing units which provide an additional 18 units and our new three-level parking garage providing 235 parking spaces. The construction payable includes smaller outstanding construction invoices and a reduced construction retainage balance resulting from releases performed during the 2013 year. The District did not issue additional debt during 2013.

The \$2,130,823 net increase in total liabilities for 2012 was attributed mainly to the increase in construction payable resulting from the Master Facilities Plan project that began in December 2010. This payable includes outstanding construction invoices and related construction retainage. The District did not issue additional debt during 2012. However, on August 28, 2012, the District refunded its Variable Rate Demand Revenue Bonds, Series 2003 through the issuance of its Refunding Revenue Bonds, Series 2012. The net effect of the transaction resulted in a reduction in bonds payable of \$675,000 and recognition of a loss on refunding of \$194,770. The proceeds from the bonds were used to refund the 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.

The \$2,903,698 increase in total liabilities for 2011 was attributed to the increase in construction payable resulting from the Master Facilities Plan project. The District also purchased, under a new capital lease, a new state-of-the-art CT scan system which offers enhanced visual clarity and up to 50% radiation reduction to patients under a new capital lease obligation. As a result of this purchase, the long-term capital lease obligations increased by \$723,113.

The District reported unrestricted net position of \$55,108,209 in 2013, \$54,304,757 in 2012 and \$57,384,019 in 2011. The increase in total net position of \$21,197,844 from 2012, \$15,639,300 from 2011 and \$9,442,738 from 2010 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 \$5,421,831 or 8.8% in 2013 compared to \$4,194,513 or 7.3% in 2012. Net patient service revenue for 2013 in total was \$67,327,060 compared to \$61,905,234 in 2012 and \$57,710,721 in 2011. The most significant factors giving rise to the increase in revenues in 2013, was the increase in joint replacement surgeries driven by the purchase of the Makoplasty Robotic technology, which was acquired during the last quarter of 2012. In addition, the acuity of the patients (the level of severity of the illness) increased by 12.4% from 2012. The level of acuity of the patients increased in 2012 by 8.4% from 2011, resulting in increase in revenues during that year. These more

severe patients require more resources for their treatments in all areas of the hospital, and in particular, the ancillary services (laboratory, radiology and pharmacy). The slower rate of growth in net patient service revenue for both 2011 and 2010 was directly attributable to the downturn in economic conditions experienced around the country.

The District's outpatient service revenues continue to exceed the inpatient service revenues, with 69% of the District's 2013 patient service revenue generated by outpatient services, compared to 73% in 2012 and 74% in 2011. The departments contributing most to outpatient revenues during these years were Outpatient Surgeries, Emergency Room, Laboratory and Diagnostic Imaging.

The payer mix for the District has remained consistent with prior years' experience. The largest portion of the District's patient service revenues were derived from commercial health plans, 62% during 2013 and 63% during 2012 and 2011. In addition, the District derived approximately 25% of gross revenues from Medicare in 2013, up 2.3 percentage points from 2012 and 3.8 percentage points from 2011. 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 2013, the District received \$307,826 of fees from the Aspen Ambulance District, related to the management of their operations, compared to \$353,635 of fees received in 2012 and \$360,818 in 2011. The \$248,892 increase in other operating revenues resulted from an increase in rental income from new medical office space and employee housing. The \$206,110 decrease in other operating revenues in 2012 and \$75,305 in 2011 was attributable to a reduction in rents in the assisted living facility as mitigation on the disruption created by the District's construction, and a reduction in rental income from employee housing.

Nonoperating revenues and expenses are comprised of ad valorem taxes, investment income, interest expense, community assistance programs, noncapital contributions, gain or loss on investment in joint venture and gain or loss on sale of capital assets. During 2012, nonoperating revenues of the District reflected a net loss from operating their newly formed supporting foundation, Aspen Valley Hospital Foundation. Historically, the District received financial support from the Aspen Valley Medical Foundation, which was governed by an independent board of directors and whose fund raising efforts were devoted to the District and numerous other nonprofit organizations. The Aspen Valley Medical Foundation Board and the District's Board determined that the entities' missions were diverging sufficiently that a separation of the entities was in order. Consequently, on June 15, 2012, the entities separated and the District formed the Aspen Valley Hospital Foundation, whose mission is to solely support the fund raising efforts for the District. During 2013, the District relinquished control of Aspen Valley Hospital Foundation's Board of Directors and, therefore, the financial statements reflect this entity's 2013 activity under the component units column. Nonoperating revenues and expenses for 2013 were \$7,984,899 compared to \$6,461,574 in 2012 and \$6,749,278 for 2011. The \$1,523,325 increase from 2012 in nonoperating revenues was attributable to an increase in ad valorem taxes of \$873,896, a decrease in investment income of \$2,374, an increase in interest expense of \$87,360, an increase in community assistance programs of \$50,106, a decrease in Aspen Valley Hospital Foundation expenses of \$483,203, an increase in noncapital contributions of \$378,386, a decrease in gain on investment in joint venture of \$11,591 (due to a change in financial reporting) and a decrease in gain on equity interests in ASC and MIC of \$72,763 (due to a change in financial reporting) and a decrease in loss on sale of capital assets of \$12,034. The \$287,704 decrease from 2011 in nonoperating revenues was attributable to an increase in ad valorem taxes of \$190,893, a decrease in investment income of \$229,854, an increase in interest expense of \$133,302, a decrease in community assistance programs of \$105,206, an increase in Aspen Valley Hospital Foundation expenses of \$483,203, a decrease in noncapital contributions of \$92,096, an increase

in gain on investment in joint venture of \$23,458, an increase in gain on equity interest in ASC and MIC of \$175,594 (previously reported under Member Distributions below nonoperating revenue section) and a decrease in loss on sale of capital assets of \$155,600. Aspen Valley Hospital District has an agreement with Mountain Family Health Centers to provide financial support to cover the cost of providing health care services to the indigent population residing between Aspen and El Jebel. The expenses related to this program are reflected under Community Assistance Programs.

Expenses

In 2013, operating expenses increased \$4,721,246 from the 2012 reported data. The factors giving rise to this increase were an increase in salaries and wages of \$1,152,430, a decrease in contract labor of \$131,530, an increase in supplies and other of \$4,232,041 and a decrease in depreciation and amortization of \$531,695. The most significant cause of the increase in the salaries and wages was the increased volumes in the inpatient surgeries which drove an increase in surgery, inpatient unit, ancillary services and physical therapy departments. In addition, there was a Chief Medical Officer position hired during 2013 and a change in the Chief Executive Officer position which resulted in increased wages in the administration department. Within the supplies and other increase, there was an increase in physician compensation of \$338,527 (resulting from new orthopedic call in the emergency department, increase in the hospitalist call fees and increase in locums coverage for the surgery department); an increase in patient care supplies of \$1,619,751 (resulting from drug and implantable expense); an increase in advertising and marketing of \$98,991; an increase in dues, subscriptions and licenses of \$591,763 (resulting from an internal reclassification from maintenance expense); an increase in legal and consulting of \$751,250; an increase in outsourcing of \$218,436 (driven by increased cash collections); an increase in maintenance and utilities of \$133,073; an increase in small furniture and minor equipment of \$7,439; an increase in rent and storage of \$27,146; an decrease in employee benefits of \$316,828 and an increase in miscellaneous expenses of \$762,497 (resulting from an increase in the Medicaid Provider Fee, which was more than offset by the Medicaid Provider Payments). In 2012, operating expenses increased \$1,301,429 from the 2011 reported data. The factors giving rise to this increase were an increase in salaries and wages of \$633,911, a decrease in contract labor of \$79,989, an increase in supplies and other of \$1,016,694 and a decrease in depreciation and amortization of \$429,165. The most significant cause of the increase in the salaries and wages was the employment of a cardiology physician which is offset by the reduction in physician compensation under supplies and other. Within the supplies and other increase, there was a decrease in physician compensation of \$311,913; an increase in patient care supplies of \$295,293 (resulting from drug and implantable expense); an increase in advertising and marketing of \$37,078; an increase in dues, subscriptions and licenses of \$99,120; an increase in legal and consulting of \$69,662; an increase in outsourcing of \$343,843; an increase in small furniture and minor equipment of \$93,862; an increase in employee benefits of \$587,242 and a decrease in miscellaneous expenses of \$104,816. In 2011, operating expenses decreased \$428,569 from the 2010 reported data. The factors giving rise to this decrease in expenses were an increase of \$241,242 in salaries and wages, a decrease of \$591,525 in contract labor, a decrease of \$380,861 from supplies and other and an increase of \$302,575 from depreciation and amortization. Within the supplies and other decrease, patient care supplies increased \$226,651; maintenance and utilities increased \$118,953; outsourcing increased \$208,143; legal consulting and audit increased \$127,425; employee benefits decreased \$831,148 and miscellaneous expenses decreased \$230,885. During 2013, 2012 and 2011, the District's management continued to monitor the growth in full-time equivalents and operational expenses resulting in lower expenses than budgeted. The District continued participating in the Colorado Medicaid Provider Fee Program, which is part of the *Colorado Health Care Affordability Act* signed on April 2009 and as a result was charged with provider fees totaling \$1,349,443 in 2013, \$720,447 in 2012 and \$675,559 in 2011 (which were offset by a reduction on Medicaid and the Indigent Care Program contractals of \$2,072,763 in 2013, \$1,450,792 for 2012 and \$1,394,544 in 2011). Such provider fees are being reported within the supplies and other category.

Provision for Uncollectible Accounts

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

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

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

In 2013, the District reported a provision for uncollectible accounts of \$2,041,933, compared to \$2,150,432 for 2012 and \$2,580,948 for 2011. The reduced provision in 2013 resulted from an increased in efficiency of the billing process. These procedures resulted in faster collections from third-party payers allowing the District to increase collections on the patients' payment portions for both 2013 and 2012. The increase in the provision for uncollectible accounts for 2011 as compared to 2010 was related to an increase in international patient accounts with insufficient insurance coverage during our ski season. The District's estimate for allowance for uncollectible accounts is based on Computer Sciences Corporation and Firstsource Solutions' analysis, recommendations for modification and implementation of improved billing and collection processes. The provision for uncollectible accounts is included in net patient service revenue.

Accounts written-off as charity and indigent care are included in net patient service revenue. Charity and indigent care write-offs for 2013 were \$3,345,549 or 3.7% of gross patient service revenues, compared to \$3,024,386 or 3.7% of gross patient service revenue during 2012 and \$3,175,573 or 4.1% of gross patient service revenue for 2011.

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, 2013, 2012 and 2011:

Cash Flows	2013	2012	2011
Operating activities	\$ 7,804,319	\$ 7,023,084	\$ 9,772,016
Noncapital financing activities	3,596,606	3,052,960	3,685,436
Capital and related financing activities	(20,333,350)	(35,051,977)	(28,445,984)
Investing activities	<u>21,222,714</u>	<u>4,018,775</u>	<u>(4,945,226)</u>
Net increase (decrease) in cash	<u>\$ 12,290,289</u>	<u>\$ (20,957,158)</u>	<u>\$ (19,933,758)</u>

In 2013, the District's cash flow from operations increased \$781,235 as compared to 2012 from increased receipts from and on behalf of patients of \$5,854,342, increased payments to suppliers of \$3,373,602 (a decrease in cash), increased payments to employees of \$1,165,688 (a decrease in cash) and decreased other receipts of \$533,817. During 2012, the District's cash flow from operations decreased \$2,748,932 as compared to 2011 from increased receipts from patients and third-party payers of \$1,983,091, increased payments to suppliers of \$2,096,498 (a decrease in cash), increased payments to employees of \$571,570 (a decrease in cash) and decreased cash receipts from others of \$2,063,956. The District's cash flow from operations increased \$4,923,269 in 2011 resulting from increased receipts from patients and third-party payers of \$928,111, decreased payments to suppliers of \$2,582,960 (an increase in cash), increased payments to employees of \$273,039 (a decrease in cash) and increased cash receipts from others of \$1,685,237.

Noncapital financing reflects an increase in cash flows in 2013 of \$543,646 resulting from a decrease in ad valorem tax receipts of \$65,396, an increase in community assistance programs of \$64,803 (a decrease in cash), a decrease in Aspen Valley Hospital Foundation expense of \$483,203 (an increase in cash) and an increase in noncapital contributions of \$190,642. In 2012, noncapital financing reflects a decrease in cash flows of \$632,476 resulting from a decrease in ad valorem tax receipts of \$61,053, an increase in community assistance program payments of \$29,122 (a decrease in cash) and a decrease in noncapital contributions of \$59,109. In 2011, noncapital financing reflected an increase in cash flow from 2010 of \$220,264 resulting from an increase in ad valorem tax receipts of \$32,786, an increase community assistance program payments of \$5,269 (an increase in cash) and an increase in noncapital contributions receipts of \$192,747.

In 2013, the net cash used in capital and related financing activities increased by \$14,718,627 primarily due to an increase in ad valorem tax receipts of \$780,202, a decrease in the purchase of capital assets of \$9,164,852 (an increase in cash), a decrease in principal payments on long-term debt of \$603,980 (an increase in cash) and an increase in capital contributions of \$4,190,869. In 2012, cash flow used in capital and related financing activities decreased by \$6,605,992 primarily due to an increase in the purchases of capital assets of \$7,603,631 (a decrease in cash), an increase in principal payments on long-term debt of \$831,274 (a decrease in cash) and an increase in interest payments on long-term debt of \$105,772 (an increase in cash). In addition, the District refunded its Variable Rate Demand Revenue Bonds, Series 2003 through the issuance of its Refunding Revenue Bonds, Series 2012, dated August 28, 2012. During 2011, cash flow activities used in capital and related financing activities decreased by \$71,638,742. The main driver in this significant decrease was the use of the Series 2010 General Obligation Bonds proceeds to finance the Master Facilities Plan project, which broke ground December 2010. In addition, the District collected additional ad valorem tax receipts of \$3,250,759 to cover the 2011 debt service requirement on the Series 2010 General Obligation Bonds.

In 2013, investing activities reflected an increase of \$17,203,939 as compared to 2012 from an increase in proceeds from sale of investments of \$17,280,544, a decrease in investment income of \$37,165 (a decrease in cash) and an decrease in member distributions of \$522,402 (a decrease in cash). In 2012, investing activities reflected an increase of \$8,964,001 as compared to 2011 from an increase in purchases of investments (a decrease in cash) of \$8,260,949, a decrease in investment income of \$240,147 and an increase in member distributions (an increase in cash) of \$943,199. In 2011, investing activities reflected a decrease in cash flow of \$6,526,079 as compared to 2010 from increased purchases of investments of \$5,093,522, decreased investment income of \$528,722, decrease in member distributions of \$590,036 and a decrease in equity transfers of \$313,799 (all reductions in cash). In 2013, the District retained in cash certificates of deposits that matured in order to continue to fund the Master Facilities Plan project with its own cash in contrast to both 2012 and 2011, when the District purchased investments, in addition to holding investments purchased in previous years while the proceeds from the Series 2010 General Obligation Bonds were unexpended.

Outstanding Debt Securities

The District did not issue additional debt in 2013. On August 28, 2012, the District refunded its Variable Rate Demand Revenue Bonds, Series 2003 (which included an irrevocable letter of credit), in the amount of \$11,715,000, through the issuance of its Refunding Revenue Bonds, Series 2012 in the amount of \$10,040,000. The proceeds from the bonds were used to refund the 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. Construction on Phase II is expected to be completed by July 31, 2014.

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 2014 and 2013 budgets during the last quarter of the 2013 and 2012 calendar years, respectively. There were no amendments made to the original budgets presented to the State of Colorado for the calendar years 2013 and 2012.

During 2013, net patient service revenue was \$3,644,021 (5.7%) higher than budget, while operating expenses were \$460,102 (0.7%) lower than budget. In 2012, net patient service revenue was \$2,670,230 (4.5%) higher than budget, while operating expenses were \$1,310,027 (2.2%) lower than budget.

Please see page 44 for the statement of budgeted and actual revenues and expenses for the year ended December 31, 2013.

Economic Factors and Next Year's Budget

During 2013, the District experienced an increase in surgical procedures and inpatient volumes in contrast to 2012 and 2011, when they had continued to experience a decline in the patient volumes as compared to previous years. Throughout 2013, the District's management continued to support the cost saving

initiatives implemented in 2012 and 2011, which resulted in a smaller increase in operating expenses (excluding legal and consulting) of 6.8% than the increase in revenues of 8.9%. The total gain for 2013 increased as compared to 2012 by \$5.6 million, caused primarily by the increase in philanthropic contributions for Phases III and IV of the Master Facilities Plan, and the previously mentioned increase in net patient service revenues.

The District continues to outsource its billing office to Firstsource Solutions located in Belleville, Illinois. This arrangement continues to result in the extraordinary management of accounts receivable and increased unrestricted cash. Evidence of this is in the fact that net days in accounts receivable for the past three years were below 46 days. Net accounts receivable only increased by \$721,075 (9%) despite growth of net patient service revenues of \$5,421,826 during 2013. Unrestricted cash balances increased by \$11,325,208 or 58% compared to 2012 levels.

In constructing the District's 2014 budget, management took into account the effects of the local and national economy, and anticipated volume declines of approximately 3% in the outpatient population, while maintaining the same levels of inpatient volumes. As a result of these assumptions, gross patient service revenues for 2014 are budgeted to remain consistent with the 2013 revenues and operating expenses are expected to increase by 7.4%, generating an anticipated net position for 2014 of \$11.6 million, which is a decrease of \$9.6 million from 2013.

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 2013, 2012 and 2011 calendar years and to demonstrate the District's accountability for its management of the finances of the District. Questions about this report should be directed to Terry Collins, Aspen Valley Hospital District's Chief Financial Officer, at 0401 Castle Creek Road, Aspen, Colorado 81611.

Aspen Valley Hospital District
Balance Sheets
December 31, 2013 and 2012

Assets and Deferred Outflows of Resources

	2013		2012	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital <i>(As Adjusted)</i>	Component Units
Current Assets				
Cash and cash equivalents	\$ 30,934,799	\$ 191,895	\$ 19,609,591	\$ 135,409
Short-term investments	18,222,946	-	27,240,620	-
Patient accounts receivable, net	8,617,397	645,789	7,896,322	749,403
Estimated amounts due from third-party payers	298,818	-	-	-
Contributions receivable	-	11,231	-	-
Due from Aspen Valley Hospital Foundation	1,305,582	-	-	-
Other receivables	431,701	13,926	819,276	5,000
Inventories	1,825,820	177,158	1,807,588	165,199
Prepaid expenses	1,257,740	-	1,014,891	-
	62,894,803	1,039,999	58,388,288	1,055,011
Noncurrent Cash and Investments				
Internally designated for capital acquisitions	-	-	10,617,992	-
Restricted by donors for capital acquisitions and specific operating activities	1,372,713	324,502	-	-
Contributions receivable held by Aspen Community Foundation	4,195,404	-	2,147,384	-
Held by Aspen Community Foundation for capital acquisitions	28,641	-	1,947,842	-
Bond funds restricted for capital acquisitions	495,013	-	864,958	-
Held by trustee for debt service	2,334,865	-	2,372,552	-
	8,426,636	324,502	17,950,728	-
Capital Assets, Net	119,029,441	446,449	101,279,351	589,622
Other Assets				
Investment in joint venture	198,492	-	153,960	-
Equity interests in ASC and MIC	594,359	-	604,778	-
Net pension asset	357,908	-	381,998	-
Other	244,648	-	241,976	-
	1,395,407	-	1,382,712	-
Deferred Outflows of Resources				
Unamortized loss on refunding 2003 bonds	182,507	-	193,354	-
Unamortized loss on refunding 2000 and 2001 bonds	614,936	-	670,005	-
	797,443	-	863,359	-
Total assets and deferred outflows of resources	\$ 192,543,730	\$ 1,810,950	\$ 179,864,438	\$ 1,644,633

See Notes to Financial Statements

Liabilities and Net Position

	2013		2012	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Current Liabilities				
Current maturities of long-term debt	\$ 3,015,999	\$ 40,321	\$ 3,460,930	\$ 38,278
Accounts payable	2,873,403	55,290	2,746,000	40,818
Accrued salaries, benefits and payroll taxes	2,499,159	-	2,324,823	-
Other accrued liabilities	1,193,614	1,482,781	1,238,695	311,309
Refunds payable	90,556	-	84,719	-
Unclaimed refunds payable	85,734	-	131,740	-
Construction payable	3,836,142	-	9,527,123	-
Estimated amounts due to third-party payers	-	-	129,543	-
Total current liabilities	<u>13,594,607</u>	<u>1,578,392</u>	<u>19,643,573</u>	<u>390,405</u>
Long-term Debt				
Bonds payable	62,777,796	-	65,467,746	-
Capital lease obligations	979,632	28,069	759,268	68,390
	<u>63,757,428</u>	<u>28,069</u>	<u>66,227,014</u>	<u>68,390</u>
Total liabilities	<u>77,352,035</u>	<u>1,606,461</u>	<u>85,870,587</u>	<u>458,795</u>
Net Position				
Net investment in capital assets	53,548,470	-	33,319,724	-
Restricted - expendable for				
Debt service	2,334,865	-	2,372,552	-
Capital acquisitions	3,823,849	-	3,996,818	-
Specific operating activities	376,302	-	-	-
Reserved for minority interests	-	571,052	-	581,061
Unrestricted	55,108,209	(366,563)	54,304,757	604,777
Total net position	<u>115,191,695</u>	<u>204,489</u>	<u>93,993,851</u>	<u>1,185,838</u>
Total liabilities and net position	<u>\$ 192,543,730</u>	<u>\$ 1,810,950</u>	<u>\$ 179,864,438</u>	<u>\$ 1,644,633</u>

Aspen Valley Hospital District
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2013 and 2012

	2013		2012	
	Aspen Valley Hospital	Component Units	<i>(As Adjusted)</i>	
	Aspen Valley Hospital	Component Units	Aspen Valley Hospital	Component Units
Operating Revenues				
Net patient service revenue	\$ 67,327,065	\$ 4,673,983	\$ 61,905,234	\$ 4,828,583
Other	2,063,805	-	1,814,913	-
Total operating revenues	<u>69,390,870</u>	<u>4,673,983</u>	<u>63,720,147</u>	<u>4,828,583</u>
Operating Expenses				
Salaries and wages	24,610,429	1,015,206	23,457,999	636,129
Contract labor	1,076,908	21,939	1,208,438	-
Supplies and other	33,562,007	2,387,068	29,329,966	2,031,262
Depreciation and amortization	3,788,556	170,782	4,320,251	265,670
Total operating expenses	<u>63,037,900</u>	<u>3,594,995</u>	<u>58,316,654</u>	<u>2,933,061</u>
Operating Income	<u>6,352,970</u>	<u>1,078,988</u>	<u>5,403,493</u>	<u>1,895,522</u>
Nonoperating Revenues (Expenses)				
Ad valorem taxes	7,809,797	-	6,935,901	-
Investment income	122,192	40,296	124,566	21,931
Interest expense	(999,033)	-	(911,673)	-
Community assistance programs	(162,833)	-	(112,727)	-
Aspen Valley Hospital Foundation, net	-	-	(483,203)	-
Noncapital contributions	376,302	66,714	(2,084)	-
Gain on investment in joint venture	63,940	-	75,531	-
Gain on equity interests in ASC and MIC	905,138	-	977,901	-
Loss on sale of capital assets	(130,604)	-	(142,638)	-
Total nonoperating revenues	<u>7,984,899</u>	<u>107,010</u>	<u>6,461,574</u>	<u>21,931</u>
Excess of Revenues Over Expenses Before Capital Contributions, Provision for Uncollectible Capital Contributions, Transfer of Equity, and Member Distributions				
Capital contributions	14,337,869	1,185,998	11,865,067	1,917,453
Provision for uncollectible capital contributions	6,089,513	110,821	6,049,233	-
Transfer of equity	287,500	-	(2,275,000)	-
Member distributions	482,962	(482,962)	-	-
	<u>-</u>	<u>(1,795,206)</u>	<u>-</u>	<u>(2,089,410)</u>
Change in Net Position	21,197,844	(981,349)	15,639,300	(171,957)
Net Position, Beginning of Year	<u>93,993,851</u>	<u>1,185,838</u>	<u>78,354,551</u>	<u>1,357,795</u>
Net Position, End of Year	<u>\$ 115,191,695</u>	<u>\$ 204,489</u>	<u>\$ 93,993,851</u>	<u>\$ 1,185,838</u>

Aspen Valley Hospital District
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013		2012	
	Aspen Valley Hospital	Component Units	<i>(As Adjusted)</i> Aspen Valley Hospital	Component Units
Operating Activities				
Receipts from and on behalf of patients	\$ 66,137,460	\$ 4,777,597	\$ 60,283,118	\$ 4,708,238
Payments to suppliers	(34,376,465)	(1,235,022)	(31,002,863)	(1,897,995)
Payments to employees	(24,412,003)	(1,015,206)	(23,246,315)	(636,129)
Other receipts (payments), net	455,327	(20,157)	989,144	-
Net cash provided by operating activities	<u>7,804,319</u>	<u>2,507,212</u>	<u>7,023,084</u>	<u>2,174,114</u>
Noncapital Financing Activities				
Ad valorem taxes	3,423,431	-	3,488,827	-
Community assistance programs	(206,015)	-	(141,212)	-
Aspen Valley Hospital Foundation, net	-	-	(483,203)	-
Noncapital contributions	379,190	66,714	188,548	-
Net cash provided by noncapital financing activities	<u>3,596,606</u>	<u>66,714</u>	<u>3,052,960</u>	<u>-</u>
Capital and Related Financing Activities				
Ad valorem taxes	4,361,204	-	3,581,002	-
Purchases of capital assets	(26,446,884)	(27,609)	(35,611,736)	(46,516)
Proceeds from sale of capital assets	4,300	-	11,302	-
Proceeds from issuance of bonds	-	-	10,615,486	-
Refunding of Series 2003 bonds	-	-	(10,715,000)	-
Principal payments on long-term debt	(3,423,470)	(38,278)	(4,027,450)	(36,337)
Interest payments on long-term debt	(1,029,765)	-	(915,977)	-
Capital contributions	6,201,265	110,821	2,010,396	-
Net cash provided by (used in) capital and related financing activities	<u>(20,333,350)</u>	<u>44,934</u>	<u>(35,051,977)</u>	<u>(82,853)</u>
Investing Activities				
Proceeds from sale of investments, net	19,682,595	-	2,402,051	-
Investment income	141,660	40,296	178,825	21,931
Transfer of equity	482,962	(482,962)	-	-
Member distributions	915,497	(1,795,206)	1,437,899	(2,089,410)
Net cash provided by (used in) investing activities	<u>21,222,714</u>	<u>(2,237,872)</u>	<u>4,018,775</u>	<u>(2,067,479)</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>12,290,289</u>	<u>380,988</u>	<u>(20,957,158)</u>	<u>23,782</u>
Cash and Cash Equivalents, Beginning of Year	<u>22,847,101</u>	<u>135,409</u>	<u>43,804,259</u>	<u>111,627</u>
Cash and Cash Equivalents, End of Year	<u>\$ 35,137,390</u>	<u>\$ 516,397</u>	<u>\$ 22,847,101</u>	<u>\$ 135,409</u>

Aspen Valley Hospital District
Statements of Cash Flows (Continued)
Years Ended December 31, 2013 and 2012

	2013		2012	
	Aspen Valley Hospital	Component Units	<i>(As Adjusted)</i> Aspen Valley Hospital	Component Units
Reconciliation of Cash and Cash Equivalents to the Balance Sheets				
Cash and cash equivalents	\$ 30,934,799	\$ 191,895	\$ 19,609,591	\$ 135,409
Restricted by donors for capital acquisitions and specific operating activities	1,372,713	324,502	-	-
Bond funds restricted for capital acquisitions	495,013	-	864,958	-
Held by trustee for debt service	2,334,865	-	2,372,552	-
	<u>\$ 35,137,390</u>	<u>\$ 516,397</u>	<u>\$ 22,847,101</u>	<u>\$ 135,409</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating income	\$ 6,352,970	\$ 1,078,988	\$ 5,403,493	\$ 1,895,522
Depreciation and amortization	3,788,556	170,782	4,320,251	265,670
Provision for uncollectible accounts	2,041,933	-	2,150,432	-
Change in operating assets and liabilities				
Patient accounts receivable	(2,763,008)	103,614	(2,952,069)	(120,345)
Contributions receivable	-	(11,231)	(1,795)	-
Other receivables	(300,224)	(8,926)	(804,230)	-
Inventories	(18,232)	(11,959)	10,099	(23,539)
Prepaid expenses	(242,849)	-	(134,772)	-
Net pension asset	24,090	-	25,711	-
Other assets	(1,308,254)	-	(19,744)	-
Accounts payable	92,493	14,472	84,311	(12,766)
Accrued salaries, benefits and payroll taxes	174,336	-	185,973	-
Other accrued liabilities	431,038	1,171,472	(424,097)	169,572
Refunds payable	5,837	-	(46,857)	-
Unclaimed refunds payable	(46,006)	-	(94,924)	-
Estimated amounts due to and due from third-party payers	(428,361)	-	(678,698)	-
	<u>\$ 7,804,319</u>	<u>\$ 2,507,212</u>	<u>\$ 7,023,084</u>	<u>\$ 2,174,114</u>
Supplemental Cash Flows Information				
Capital lease obligations for equipment	\$ 605,601	\$ -	\$ 947,774	\$ -
Capital asset acquisitions included in current liabilities	\$ 6,274,385	\$ -	\$ 11,653,320	\$ -
Member distributions included in accounts receivable	\$ -	\$ -	\$ (372,300)	\$ -
Amortization of loss on refunding	\$ 65,916	\$ -	\$ 56,485	\$ -
Amortization of bond premiums	\$ 96,648	\$ -	\$ 60,789	\$ -

Aspen Valley Hospital District
Statements of Fiduciary Net Position
Fiduciary Funds
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Investments	<u>\$ 19,030,080</u>	<u>\$ 16,174,659</u>
Net Position - Held for Pension Benefits	<u>\$ 19,030,080</u>	<u>\$ 16,174,659</u>

Aspen Valley Hospital District
Statements of Changes in Fiduciary Net Position
Fiduciary Funds
Years Ended December 31, 2013 and 2012

	2013	2012
Additions		
Contributions for employee benefits	\$ 1,258,938	\$ 1,522,841
Investment earnings	2,483,408	1,732,569
Total additions	3,742,346	3,255,410
Deductions		
Benefits	886,925	513,740
Total deductions	886,925	513,740
Change in Net Position	2,855,421	2,741,670
Net Position, Beginning of Year	16,174,659	13,432,989
Net Position, End of Year	\$ 19,030,080	\$ 16,174,659

Aspen Valley Hospital District

Notes to Financial Statements

December 31, 2013 and 2012

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 Foundation's primary function is to raise and hold funds to support the District and its programs. The board of the Foundation is self-perpetuating. 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 discretely presented in the District's 2013 financial statements. Prior to 2013, the District had a controlling interest in the Foundation. The Foundation was considered to be component unit of the District and was included in the District's 2012 financial statements using blended presentation. Separate complete financial statements are not prepared.

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

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

Aspen Valley Hospital District

Notes to Financial Statements

December 31, 2013 and 2012

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 nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), ad valorem taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net positions are available.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, 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, 2013 and 2012, cash equivalents consisted primarily of money market accounts with financial institutions.

Aspen Valley Hospital District

Notes to Financial Statements

December 31, 2013 and 2012

Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

Investments and Investment Income

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

Investment income consists entirely of interest income.

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

Patient Accounts Receivable

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

Inventories

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

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2013 and 2012

Capital Assets

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

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

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

	<u>2013</u>	<u>2012</u>
Total interest expense incurred on borrowings for project	\$ 2,262,528	\$ 2,299,964
Build America Bonds credit and interest income from investment of proceeds of borrowings for project	<u>648,663</u>	<u>761,436</u>
Net interest cost capitalized	<u>\$ 1,613,865</u>	<u>\$ 1,538,528</u>
Interest capitalized	\$ 2,262,528	\$ 2,299,964
Interest charged to expense	<u>999,033</u>	<u>911,673</u>
	<u>\$ 3,261,561</u>	<u>\$ 3,211,637</u>

Construction contracts of approximately \$72,324,000 exist for the Hospital expansion. At December 31, 2013, the remaining commitment on these contracts is approximately \$3,846,000.

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.

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2013 and 2012

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.

Net Position

Net position of the District is classified in four 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. Reserved for minority interests consist of the component units minority interests held by outside parties. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

Net Patient Service Revenue

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

Charity Care

The District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Net patient service revenue is reported net of charity care. Charges excluded from revenue under the District's charity care policy were \$3,345,549 and \$3,024,386 for 2013 and 2012, respectively.

Aspen Valley Hospital District

Notes to Financial Statements

December 31, 2013 and 2012

Ad Valorem Taxes

The District received approximately 3% and 4% of its sources of funds from ad valorem taxes related to the general operating mill levy in 2013 and 2012, respectively. These funds were used to support the operating and capital needs of the District. In November 2010, the voters in the District approved the District's mill levy for a five-year period through 2015. In addition, the voters also approved a separate general obligation bond and interest mill levy to fund the debt service of the Series 2010 bond issuance. The District received approximately 4% of its sources of funds from ad valorem taxes related to the general obligation bond and interest mill levy in 2013 and 2012.

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.

Subsequent Events

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

Implementation of New Accounting Principles

In 2013, the District implemented GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improves financial reporting for a governmental financial reporting entity. This Statement clarifies the reporting of equity interest in legally separate organizations. It requires a primary government to report an asset for its equity interest in a discretely presented component unit. The effects of this Statement are applied retroactively by recording a cumulative-effect adjustment to opening net position as of the earliest period presented.

Also in 2013, the District implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. It also requires a primary government to recognize debt issuance costs, except any portion related to prepaid insurance costs, as an expense in the period incurred. The effects of this Statement are applied retroactively by recording a cumulative-effect adjustment to opening net position as of the earliest period presented.

Aspen Valley Hospital District
Notes to Financial Statements
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The following financial statement line items for fiscal 2012 were affected by the implementation:

	As Previously Reported 2012	Implementation of GASB 61 and GASB 65	As Adjusted 2012
Balance Sheet Items Affected			
Equity interests in ASC and MIC	\$ -	\$ 604,778	\$ 604,778
Other assets	937,623	(695,647)	241,976
Total other assets	1,473,581	(90,869)	1,382,712
Unamortized loss on refunding			
2003 bonds	-	193,354	193,354
Unamortized loss on refunding			
2000 and 2001 bonds	-	670,005	670,005
Total deferred outflows of resources	-	863,359	863,359
Total assets and deferred outflows of resources	179,091,948	772,490	179,864,438
Current maturities of long-term debt	3,395,014	65,916	3,460,930
Bonds payable	64,670,303	797,443	65,467,746
Total liabilities	85,007,228	863,359	85,870,587
Net position - unrestricted	54,395,626	(90,869)	54,304,757
Total net position	94,084,720	(90,869)	93,993,851
Statement of Revenues, Expenses and Changes in Net Position Items Affected			
Supplies and Other	29,325,132	4,834	29,329,966
Depreciation and amortization	4,378,611	(58,360)	4,320,251
Gain on equity interests in ASC and MIC	-	977,901	977,901
Member distributions	1,065,599	(1,065,599)	-
Change in net position	15,673,472	(34,172)	15,639,300
Net position, beginning of year	78,411,248	(56,697)	78,354,551
Net position, end of year	94,084,720	(90,869)	93,993,851

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2013 and 2012

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.

Approximately 25% and 26% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2013 and 2012, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

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

	<u>2013</u>	<u>2012</u>
Gross patient service revenue	\$ 91,158,048	\$ 81,815,079
Less		
Medicare contractual adjustments	10,997,250	7,130,043
Medicaid contractual adjustments	(538,075)	199,639
Other contractals and adjustments	7,984,326	7,405,345
Charity care	3,345,549	3,024,386
Provision for uncollectible accounts	<u>2,041,933</u>	<u>2,150,432</u>
Net patient service revenue	<u>\$ 67,327,065</u>	<u>\$ 61,905,234</u>

Aspen Valley Hospital District
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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, 2013 and 2012, respectively, \$52,514,082 and \$43,700,948 of the District's bank balances of \$53,514,082 and \$60,934,103 were protected by the *Colorado Public Deposit Protection Act* noted above.

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, 2013 and 2012, investments, not including fiduciary fund assets, amounted to \$1,264,136 and \$1,301,930, 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. Investments held by the Aspen Community Foundation are invested in money markets. Investments are reported at fair value and have maturities of less than one year.

Fiduciary fund assets of \$19,030,080 and \$16,174,659 at December 31, 2013 and 2012, respectively, are invested in pooled separate accounts and are reported at fair value. None of the funds are subject to concentration of credit risk, custodial credit risk or foreign currency risk.

Aspen Valley Hospital District
Notes to Financial Statements
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Summary of Carrying Values

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

	<u>2013</u>	<u>2012</u>
Carrying value		
Deposits	\$ 52,122,001	\$ 61,348,825
Investments	1,264,136	1,301,930
Fiduciary fund assets	19,030,080	16,174,659
Cash on hand and change funds	<u>2,840</u>	<u>2,800</u>
	<u>\$ 72,419,057</u>	<u>\$ 78,828,214</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 30,934,799	\$ 19,609,591
Short-term investments	18,222,946	27,240,620
Internally designated for capital acquisitions	-	10,617,992
Restricted by donors for capital acquisitions		
and specific operating activities	1,372,713	-
Held by Aspen Community Foundation	28,641	1,947,842
Bond funds restricted for capital acquisitions	495,013	864,958
Held by trustee under bond agreement	2,334,865	2,372,552
Held by trustee under pension plan agreement		
(fiduciary fund assets)	<u>19,030,080</u>	<u>16,174,659</u>
	<u>\$ 72,419,057</u>	<u>\$ 78,828,214</u>

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:

	<u>2013</u>	<u>2012</u>
Medicare	\$ 1,443,511	\$ 1,682,025
Medicaid	90,994	103,895
Blue Cross	1,394,294	1,027,029
Other third-party payers	5,435,010	4,883,189
Self-pay	<u>763,662</u>	<u>982,456</u>
	9,127,471	8,678,594
Less allowance for uncollectible accounts	<u>(510,074)</u>	<u>(782,272)</u>
	<u>\$ 8,617,397</u>	<u>\$ 7,896,322</u>

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2013 and 2012

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2013				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 267,057	\$ -	\$ -	\$ -	\$ 267,057
Land improvements	332,002	-	(6,777)	-	325,225
Buildings	13,862,457	-	-	-	13,862,457
Fixed equipment	4,129,514	-	(1,573)	-	4,127,941
Moveable equipment	30,751,262	3,751,626	(660,960)	-	33,841,928
Employee housing	8,626,246	94,980	(122,948)	-	8,598,278
Construction in progress	77,550,120	17,826,944	(4,125)	-	95,372,939
	<u>135,518,658</u>	<u>21,673,550</u>	<u>(796,383)</u>	<u>-</u>	<u>156,395,825</u>
Less accumulated depreciation					
Land improvements	109,505	21,732	(5,948)	-	125,289
Buildings	8,220,076	571,910	-	-	8,791,986
Fixed equipment	1,447,983	341,739	(1,572)	-	1,788,150
Moveable equipment	20,668,506	2,599,470	(531,008)	-	22,736,968
Employee housing	3,793,237	253,705	(122,951)	-	3,923,991
	<u>34,239,307</u>	<u>3,788,556</u>	<u>(661,479)</u>	<u>-</u>	<u>37,366,384</u>
Capital assets, net	<u>\$101,279,351</u>	<u>\$17,884,994</u>	<u>\$ (134,904)</u>	<u>\$ -</u>	<u>\$119,029,441</u>

Aspen Valley Hospital District
Notes to Financial Statements
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	2012				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 267,057	\$ -	\$ -	\$ -	\$ 267,057
Land improvements	881,962	-	(549,960)	-	332,002
Buildings	13,937,536	-	(75,079)	-	13,862,457
Fixed equipment	4,179,294	-	(49,780)	-	4,129,514
Moveable equipment	29,492,801	3,922,011	(2,663,550)	-	30,751,262
Employee housing	8,626,246	-	-	-	8,626,246
Construction in progress	38,010,700	39,539,420	-	-	77,550,120
	<u>95,395,596</u>	<u>43,461,431</u>	<u>(3,338,369)</u>	<u>-</u>	<u>135,518,658</u>
Less accumulated depreciation					
Land improvements	533,190	24,874	(537,887)	89,328	109,505
Buildings	8,218,681	581,578	(39,736)	(540,447)	8,220,076
Fixed equipment	743,626	343,798	(46,488)	407,047	1,447,983
Moveable equipment	20,156,504	3,067,063	(2,555,061)	-	20,668,506
Employee housing	3,485,346	263,819	-	44,072	3,793,237
	<u>33,137,347</u>	<u>4,281,132</u>	<u>(3,179,172)</u>	<u>-</u>	<u>34,239,307</u>
Capital assets, net	<u>\$ 62,258,249</u>	<u>\$ 39,180,299</u>	<u>\$ (159,197)</u>	<u>\$ -</u>	<u>\$ 101,279,351</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, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term. The District is subject to the provisions of the *Colorado Government Immunity Act* which provides a limitation on the liability of the District.

Aspen Valley Hospital District
Notes to Financial Statements
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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 \$150,000 for the years ended December 31, 2013 and 2012, 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 2013 and 2012 is summarized as follows:

	2013	2012
Balance, beginning of year	\$ 677,645	\$ 589,635
Current year claims incurred and changes in estimates for claims incurred in prior years	3,983,407	3,906,634
Claims and expenses paid	(4,023,078)	(3,818,624)
Balance, end of year	\$ 637,974	\$ 677,645

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, 2013 and 2012

Note 9: Long-term Debt

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

	2013					
	Beginning Balance	Additions	Payments	Ending Balance	Amounts Due Within One Year	Long-term Portion
2007 revenue bonds payable	\$ 10,575,000	\$ -	\$ (545,000)	\$ 10,030,000	\$ 575,000	\$ 9,455,000
2010 general obligation bonds payable	46,125,000	-	(1,965,000)	44,160,000	2,020,000	42,140,000
2012 revenue bonds payable	10,040,000	-	-	10,040,000	-	10,040,000
Note payable	545,418	-	(545,418)	-	-	-
Capital leases	1,068,131	605,601	(368,051)	1,305,681	326,047	979,634
	<u>68,353,549</u>	<u>605,601</u>	<u>(3,423,469)</u>	<u>65,535,681</u>	<u>2,921,047</u>	<u>62,614,634</u>
Unamortized premium on Series 2007 bonds	143,877	-	(16,975)	126,902	16,125	110,777
Unamortized premium on Series 2010 bonds	425,867	-	(36,779)	389,088	35,932	353,156
Unamortized premium on Series 2012 bonds	764,651	-	(42,895)	721,756	42,895	678,861
	<u>\$ 69,687,944</u>	<u>\$ 605,601</u>	<u>\$ (3,520,118)</u>	<u>\$ 66,773,427</u>	<u>\$ 3,015,999</u>	<u>\$ 63,757,428</u>

Aspen Valley Hospital District
Notes to Financial Statements
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	2012					
	Beginning Balance	Additions	Payments	Ending Balance	Amounts Due Within One Year	Long-term Portion
2003 revenue bonds payable	\$ 10,715,000	\$ -	\$ (10,715,000)	\$ -	\$ -	\$ -
2007 revenue bonds payable	11,095,000	-	(520,000)	10,575,000	545,000	10,030,000
2010 general obligation bonds payable	48,050,000	-	(1,925,000)	46,125,000	1,965,000	44,160,000
2012 revenue bonds payable	-	10,040,000	-	10,040,000	-	10,040,000
Note payable	562,354	-	(16,936)	545,418	545,418	-
Capital leases	1,685,867	947,774	(1,565,510)	1,068,131	308,863	759,268
	<u>72,108,221</u>	<u>10,987,774</u>	<u>(14,742,446)</u>	<u>68,353,549</u>	<u>3,364,281</u>	<u>64,989,268</u>
Unamortized premium on Series 2007 bonds	161,662	-	(17,785)	143,877	16,975	126,902
Unamortized premium on Series 2010 bonds	463,270	-	(37,403)	425,867	36,779	389,088
Unamortized premium on Series 2012 bonds	-	770,256	(5,605)	764,651	42,895	721,756
	<u>\$ 72,733,153</u>	<u>\$ 11,758,030</u>	<u>\$ (14,803,239)</u>	<u>\$ 69,687,944</u>	<u>\$ 3,460,930</u>	<u>\$ 66,227,014</u>

Revenue Bonds Payable – 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 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, 2013 and 2012.

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.

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

The District issued Tax-Exempt General Obligation Bonds, Series 2010A, and Taxable General Obligation Bonds (Direct Pay Build America Bonds), Series 2010B, for purpose of financing a portion of the costs of acquiring, improving, constructing, equipping and furnishing hospital facilities. The Series 2010A bonds are due in increasing varying annual installments through December 2016, bearing interest rates of 2% to 4%, payable 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.

Revenue Bonds Payable – 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, 2013.

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

Note Payable to Bank

The District had a note payable with principal and interest payable monthly and a final balloon payment due in 2013. This note was paid off during 2013. The note was collateralized by property and had a variable interest rate. The variable rate for both years ending December 31, 2013 and 2012, was 2.04%.

Aspen Valley Hospital District
Notes to Financial Statements
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Capital Lease Obligations

The District has capitalized lease obligations at varying rates of imputed interest maturing between 2012 and 2018 that are collateralized by leased equipment.

The debt service requirements as of December 31, 2013, are as follows:

Year Ending December 31,	General Obligation and Revenue Bonds Payable		Capital Leases	
	Principal	Interest	Principal	Interest
2014	\$ 2,595,000	\$ 3,196,417	\$ 326,047	\$ 4,918
2015	2,660,000	3,130,861	332,284	3,720
2016	2,750,000	3,039,210	328,715	2,509
2017	2,920,000	2,931,836	256,703	1,286
2018	3,005,000	2,817,085	61,932	181
2019-2023	16,590,000	11,979,085	-	-
2024-2028	20,065,000	7,277,808	-	-
2029-2033	13,645,000	1,690,820	-	-
	<u>\$ 64,230,000</u>	<u>\$ 36,063,122</u>	<u>\$ 1,305,681</u>	<u>\$ 12,614</u>

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

	<u>2013</u>	<u>2012</u>
Major moveable equipment	\$ 1,639,562	\$ 2,995,916
Less accumulated depreciation	<u>269,984</u>	<u>2,030,170</u>
	<u>\$ 1,369,578</u>	<u>\$ 965,746</u>

Aspen Valley Hospital District
Notes to Financial Statements
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Note 10: Charity Care

The costs of charity care provided under the District’s charity care policy were \$2,208,611 and \$2,104,855 for 2013 and 2012, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges from the 2012 and 2011 Medicare cost reports, respectively, to the gross uncompensated charges.

Note 11: Operating Leases

The District leases various facility spaces and equipment under operating leases expiring through 2016. Future minimum lease payments under these noncancelable leases at December 31, 2013, are:

2014	\$ 471,127
2015	423,677
2016	<u>269,349</u>
 Future minimum lease payments	 <u>\$ 1,164,153</u>

Rental expense for all operating leases at December 31, 2013 and 2012, was \$896,437 and \$954,187, respectively.

Note 12: The Aspen Valley Medical Foundation, Limited

The Aspen Valley Medical Foundation, Limited (AVMF) is an independent nonprofit corporation incorporated in 1974. AVMF’s primary objective is the betterment of health care in the Roaring Fork Valley of Colorado. Effective June 15, 2012, the District and AVMF severed its relationship. Prior to June 15, 2012, the District received contribution pledges from AVMF for operations and capital-related items. There were no contribution pledges for the years ended December 31, 2013 and 2012. Contribution payments received from AVMF during 2013 and 2012 totaled \$1,686,638 and \$161,980, respectively.

Aspen Valley Hospital District
Notes to Financial Statements
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Note 13: 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. Total contributions received and held by ACF on behalf of the District for the years ending December 31, 2013 and 2012, were \$2,607,980 and \$1,947,842, respectively. All contributions received by ACF during 2013 and 2012, are classified as capital contributions as the contributions are to be used to support the District's construction project. Contributions receivable maintained by ACF on behalf of the District consisted of the following at December 31:

	2013	2012
Due within one year	\$ 2,600,000	\$ 1,548,983
Due within one to four years	3,950,000	3,150,000
	6,550,000	4,698,983
Less		
Allowance for uncollectible contributions	1,987,500	2,275,000
Unamortized discount	367,096	276,599
	\$ 4,195,404	\$ 2,147,384

Note 14: Pension Plans

Defined Contribution Plan

The District provides a 457(b) plan to substantially all employees of the District. The employees may contribute up to 100% of their salary to the 457(b) plan. The employees' total salary deferral is limited by the Internal Revenue Service (IRS) annually. Employees are always 100% vested in the contributions they choose to defer. If an employee is 50 years old or older and has met the annual IRS deferral limit, the employee may contribute a catch-up deferral that is also limited by the IRS annually. Contributions from employees to the 457(b) plan were \$1,713,260 and \$1,645,639 for the years ended December 31, 2013 and 2012, respectively. The District does not make contributions to the 457(b) plan.

Aspen Valley Hospital District
Notes to Financial Statements
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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 shall be calculated as of the contribution date and shall be equal to 50% of the employee's elective deferral contributions. The District's contributions, for purposes of all employees, excluding the chief executive officer (CEO), shall not exceed 2.5% of their annual compensation; 5% for purposes of the CEO. Contribution expense to the 401(a) plan was \$391,400 and \$362,414 for the years ended December 31, 2013 and 2012, respectively.

Defined Benefit Plan

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

Funding Policy

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

Aspen Valley Hospital District
Notes to Financial Statements
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Annual Pension Cost and Net Pension Assets

The District's annual pension cost and net pension asset to the Plan for the years ended December 31, 2013 and 2012, was as follows:

	2013	2012
Annual required contribution	\$ 1,328,791	\$ 1,522,841
Interest on net pension asset	(26,740)	(28,540)
Adjustment to annual required contribution	50,830	54,251
Annual pension cost	1,352,881	1,548,552
Contributions made	(1,328,791)	(1,522,841)
Decrease in net pension asset	24,090	25,711
Net pension asset at beginning of year	381,998	407,709
Net pension asset at end of year	<u>\$ 357,908</u>	<u>\$ 381,998</u>

The annual required contribution for the years ended December 31, 2013 and 2012, was determined as part of the January 1, 2013 and 2012, actuarial valuation using the unit credit cost method, respectively. The actuarial assumptions for the years ended December 31 are as follows:

	2013	2012
Long-term investment rate of return (net of administrative expenses)	7.00%	7.00%
Projected salary increases after ten years	5.00%	5.00%
Inflation component per year	2.25%	2.25%

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over future years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at December 31, 2013 and 2012, is 10 years.

As of January 1, 2013, the most recent actuarial valuation dated, the Plan was 96% funded. The actuarial accrued liability for benefits was \$16,861,148 and actuarial value of assets was \$16,174,659 resulting in an unfunded actuarial accrued liability (UAAL) of \$686,489. The covered payroll was \$20,295,889, and the ratio of the UAAL to the covered payroll was 3%.

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

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2013 and 2012

Three-year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2011	\$ 1,465,073	98%	\$ 407,709
2012	1,548,552	98%	381,998
2013	1,352,881	98%	357,908

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

Note 15: Patient Protection and Affordable Care Act

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

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

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

Aspen Valley Hospital District
Notes to Financial Statements
December 31, 2013 and 2012

Note 16: Contingencies

Litigation

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

Required Supplementary Information

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(a-b)	(a/b)	(c)	(a-b/c)
6/1/04	\$ 7,310,833	\$ 8,040,139	\$ (729,306)	91%	\$ 15,046,364	-5%
6/1/05	7,778,060	8,439,829	(661,769)	92%	12,717,916	-5%
6/1/06	8,834,727	9,692,585	(857,858)	91%	12,777,017	-7%
6/1/07	10,198,381	10,220,086	(21,705)	100%	14,584,176	0%
1/1/08	9,990,736	10,615,471	(624,735)	94%	16,039,223	-4%
1/1/09	7,418,510	11,844,382	(4,425,872)	63%	17,094,569	-26%
1/1/10	10,045,588	12,613,235	(2,567,647)	80%	18,360,934	-14%
1/1/11	12,489,481	14,158,352	(1,668,871)	88%	19,358,574	-9%
1/1/12	13,432,989	15,464,139	(2,031,150)	87%	20,262,974	-10%
1/1/13	16,174,659	16,861,148	(686,489)	96%	20,295,889	-3%

Aspen Valley Hospital District
Schedule of Employer Contributions –
Cash Balance Retirement Plan
Years Ended December 31

Fiscal Year	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2004	\$ 914,386	105%
2005	778,430	96%
2006	887,556	109%
2007	492,369	100%
2008	1,043,735	110%
2009	1,666,196	101%
2010	1,508,000	100%
2011	1,438,808	100%
2012	1,522,841	100%
2013	1,328,791	100%

Supplementary Information

Aspen Valley Hospital District
Statement of Budgeted and Actual Revenues and Expenses
Year Ended December 31, 2013

	Budgeted Amount Original	Actual	Favorable (Unfavorable) Variance
Operating Revenues			
Net patient service revenue	\$ 63,683,044	\$ 67,327,065	\$ 3,644,021
Other	1,906,015	2,063,805	157,790
Total operating revenues	<u>65,589,059</u>	<u>69,390,870</u>	<u>3,801,811</u>
Operating Expenses	<u>63,498,002</u>	<u>63,037,900</u>	<u>460,102</u>
Operating Income	<u>2,091,057</u>	<u>6,352,970</u>	<u>4,261,913</u>
Nonoperating Revenues (Expenses)			
Ad valorem taxes	7,571,418	7,809,797	238,379
Investment income	63,000	122,192	59,192
Interest expense	(1,536,852)	(999,033)	537,819
Community assistance programs	(245,000)	(162,833)	82,167
Aspen Valley Hospital Foundation, net	11,286,054	-	(11,286,054)
Noncapital contributions	-	376,302	376,302
Gain on investment in joint venture	66,400	63,940	(2,460)
Gain on equity interests in ASC and MIC	-	905,138	905,138
Loss on sale of capital assets	-	(130,604)	(130,604)
Total nonoperating revenues	<u>17,205,020</u>	<u>7,984,899</u>	<u>(9,220,121)</u>
Excess of Revenues Over Expenses Before Capital Contributions, Provision for Uncollectible Capital Contributions, Transfer of Equity and Member Distributions			
	19,296,077	14,337,869	(4,958,208)
Capital contributions	39,150	6,089,513	6,050,363
Provision for uncollectible capital contributions	-	287,500	287,500
Transfer of equity	-	482,962	482,962
Member distributions	855,000	-	(855,000)
Change in Net Position	<u><u>\$ 20,190,227</u></u>	<u><u>\$ 21,197,844</u></u>	<u><u>\$ 1,007,617</u></u>

Notes to Schedule

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

Budgets are adopted by resolution in total. There were no supplemental budgets adopted during 2013.

Aspen Valley Hospital District
Combining Balance Sheets – Component Units
December 31, 2013

	Midvalley Ambulatory Surgery Center, LLC	Midvalley Imaging Center, LLC	Aspen Valley Hospital Foundation	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 122,580	\$ 69,315	\$ -	\$ 191,895
Patient accounts receivable, net	517,364	128,425	-	645,789
Contributions receivable	-	-	11,231	11,231
Other receivables	-	5,000	8,926	13,926
Inventories	177,158	-	-	177,158
Total current assets	<u>817,102</u>	<u>202,740</u>	<u>20,157</u>	<u>1,039,999</u>
Noncurrent Cash and Investments				
Restricted by donors for capital acquisitions and specific operating activities	-	-	324,502	324,502
Total noncurrent cash and investments	<u>-</u>	<u>-</u>	<u>324,502</u>	<u>324,502</u>
Capital Assets, Net				
Total capital assets, net	<u>186,711</u>	<u>259,738</u>	<u>-</u>	<u>446,449</u>
Total assets	<u>\$ 1,003,813</u>	<u>\$ 462,478</u>	<u>\$ 344,659</u>	<u>\$ 1,810,950</u>
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	\$ 40,321	\$ -	\$ -	\$ 40,321
Accounts payable	50,682	4,608	-	55,290
Other accrued liabilities	154,041	23,158	1,305,582	1,482,781
Total current liabilities	<u>245,044</u>	<u>27,766</u>	<u>1,305,582</u>	<u>1,578,392</u>
Long-term Debt				
Total long-term debt	<u>28,069</u>	<u>-</u>	<u>-</u>	<u>28,069</u>
Total liabilities	<u>273,113</u>	<u>27,766</u>	<u>1,305,582</u>	<u>1,606,461</u>
Net Position				
Reserved for minority interests	358,043	213,009	-	571,052
Unrestricted	372,657	221,703	(960,923)	(366,563)
Total net position	<u>730,700</u>	<u>434,712</u>	<u>(960,923)</u>	<u>204,489</u>
Total liabilities and net position	<u>\$ 1,003,813</u>	<u>\$ 462,478</u>	<u>\$ 344,659</u>	<u>\$ 1,810,950</u>

Aspen Valley Hospital District
Combining Statement of Revenues, Expenses
and Changes in Net Position – Component Units
Year Ended December 31, 2013

	Midvalley Ambulatory Surgery Center, LLC	Midvalley Imaging Center, LLC	Aspen Valley Hospital Foundation	Total
Operating Revenues				
Net patient service revenue	\$ 3,902,984	\$ 770,999	\$ -	\$ 4,673,983
Operating Expenses				
Salaries and wages	612,564	95,356	307,286	1,015,206
Contract labor	-	-	21,939	21,939
Supplies and other	1,791,504	269,293	326,271	2,387,068
Depreciation and amortization	75,346	95,436	-	170,782
Total operating expenses	2,479,414	460,085	655,496	3,594,995
Operating Income (Loss)	1,423,570	310,914	(655,496)	1,078,988
Nonoperating Revenues				
Investment income	33,200	7,096	-	40,296
Noncapital contributions	-	-	66,714	66,714
Total nonoperating revenues	33,200	7,096	66,714	107,010
Excess of Revenues Over Expenses Before Capital Contributions, Transfer of Equity and Member Distributions	1,456,770	318,010	(588,782)	1,185,998
Capital contributions	-	-	110,821	110,821
Transfer of equity	-	-	(482,962)	(482,962)
Member distributions	(1,329,589)	(465,617)	-	(1,795,206)
Change in Net Position	127,181	(147,607)	(960,923)	(981,349)
Net Position, Beginning of Year	603,519	582,319	-	1,185,838
Net Position, End of Year	\$ 730,700	\$ 434,712	\$ (960,923)	\$ 204,489

Aspen Valley Hospital District
Combining Statement of Cash Flows – Component Units
Year Ended December 31, 2013

	Midvalley Ambulatory Surgery Center, LLC	Midvalley Imaging Center, LLC	Aspen Valley Hospital Foundation	Total
Operating Activities				
Receipts from and on behalf of patients	\$ 3,974,859	\$ 802,738	\$ -	\$ 4,777,597
Payments to suppliers	(1,936,824)	(255,570)	957,372	(1,235,022)
Payments to employees	(612,564)	(95,356)	(307,286)	(1,015,206)
Other receipts (payments), net	-	-	(20,157)	(20,157)
	<u>1,425,471</u>	<u>451,812</u>	<u>629,929</u>	<u>2,507,212</u>
Noncapital Financing Activities				
Noncapital contributions	-	-	66,714	66,714
Capital and Related Financing Activities				
Purchases of capital assets	(26,168)	(1,441)	-	(27,609)
Principal payments on long-term debt	(38,278)	-	-	(38,278)
Capital contributions	-	-	110,821	110,821
	<u>(64,446)</u>	<u>(1,441)</u>	<u>110,821</u>	<u>44,934</u>
Net cash provided by (used in) capital and related financing activities	<u>(64,446)</u>	<u>(1,441)</u>	<u>110,821</u>	<u>44,934</u>
Investing Activities				
Investment income	33,200	7,096	-	40,296
Transfer of equity	-	-	(482,962)	(482,962)
Member distributions	(1,329,589)	(465,617)	-	(1,795,206)
	<u>(1,296,389)</u>	<u>(458,521)</u>	<u>(482,962)</u>	<u>(2,237,872)</u>
Net cash used in investing activities	<u>(1,296,389)</u>	<u>(458,521)</u>	<u>(482,962)</u>	<u>(2,237,872)</u>
Increase (Decrease) in Cash and Cash Equivalents	64,636	(8,150)	324,502	380,988
Cash and Cash Equivalents, Beginning of Year	<u>57,944</u>	<u>77,465</u>	<u>-</u>	<u>135,409</u>
Cash and Cash Equivalents, End of Year	<u>\$ 122,580</u>	<u>\$ 69,315</u>	<u>\$ 324,502</u>	<u>\$ 516,397</u>

Aspen Valley Hospital District
Combining Statement of Cash Flows – Component Units (Continued)
Year Ended December 31, 2013

	Midvalley Ambulatory Surgery Center, LLC	Midvalley Imaging Center, LLC	Aspen Valley Hospital Foundation	Total
Reconciliation of Cash and Cash Equivalents to the Balance Sheets				
Cash and cash equivalents	\$ 122,580	\$ 69,315	\$ -	\$ 191,895
Restricted by donors for capital acquisitions and specific operating activities	-	-	324,502	324,502
Total cash and cash equivalents	<u>\$ 122,580</u>	<u>\$ 69,315</u>	<u>\$ 324,502</u>	<u>\$ 516,397</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating income (loss)	\$ 1,423,570	\$ 310,914	\$ (655,496)	\$ 1,078,988
Depreciation and amortization	75,346	95,436	-	170,782
Change in operating assets and liabilities				
Patient accounts receivable	71,875	31,739	-	103,614
Contributions receivable	-	-	(11,231)	(11,231)
Other receivables	-	-	(8,926)	(8,926)
Inventories	(11,959)	-	-	(11,959)
Accounts payable	30,956	(16,484)	-	14,472
Other accrued liabilities	(164,317)	30,207	1,305,582	1,171,472
Net cash provided by operating activities	<u>\$ 1,425,471</u>	<u>\$ 451,812</u>	<u>\$ 629,929</u>	<u>\$ 2,507,212</u>