ASPEN VALLEY HOSPITAL DISTRICT

December 31, 2007 and 2006

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

Grant Thornton

Accountants and Business Advisors

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Aspen Valley Hospital District

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units and the aggregate remaining fund information of the Aspen Valley Hospital District (District) as of and for the years ended December 31, 2007 and 2006, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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 as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis of designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units and the aggregate remaining fund information of the Aspen Valley Hospital District as of December 31, 2007 and December 31, 2006 and, where applicable, the respective results of operations, changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 12 and the schedule of funding progress - cash balance retirement plan and schedule of employer contributions - cash balance retirement plan on pages 36 and 37 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Aspen Valley Hospital District's basic financial statements. The statement of budgeted and actual revenues and expenses, and combining financial statements for aggregate discretely presented component units supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Grant Thornton LLP

Wichita, Kansas
March 28, 2008

Aspen Valley Hospital District

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2007 and 2006

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 for the calendar years ended on December 31, 2007 and 2006.

Readers of this discussion and analysis will notice that in 2007, for the first time, the financial statements are broken into two columns – one for the Hospital, and one for Component Units. The Component Units column represents the financial statements for joint ventures that are owned in part by the Hospital. Please see Note A 1 in the Notes to the Financial Statements for a complete explanation of this arrangement. For purposes of this discussion and analysis, the financial results of the joint ventures are considered immaterial to the total Hospital'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 OVERVIEW

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

1. **Balance Sheet:** provides information about the Hospital's assets and liabilities and reflect the Hospital's financial position as of December 31, 2007 and 2006.
2. **Statement of Revenues, Expenses, and Changes in Net Assets:** reports the cumulative activity of providing healthcare services and the expenses related to such activity for the years ended December 31, 2007 and 2006.
3. **Statement of Cash Flows:** outlines the cash inflows and outflows related to the activity of providing healthcare services for the year ended December 31, 2007 and 2006.
4. **Notes to the Financial Statements:** provide explanation and clarification on specific items within the previously mentioned financial statements.

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

1. BALANCE SHEET

Financial Analysis

Aspen Valley Hospital's Total Assets at the end of 2007 were $81,618,470 compared to $69,777,855 at the end of 2006 and $61,291,203 at the end of 2005. The $11,840,615 increase from 2006 assets is attributable to cash generated from operations and an increase in Property, Plant, and Equipment. The $8,486,652 increase from 2005 assets was also driven by increases in operating cash flows and by increases in Property, Plant and Equipment.

At December 31, 2007, assets consisted primarily of Cash and Cash Equivalents of $31,397,091, Investments of $1,393,010, Net Patient Accounts Receivable of $7,002,567, Restricted Assets Under Bond Agreement of $4,608,354, and Capital Assets of $31,241,535. At December 31, 2006, assets consisted primarily of Cash and Cash Equivalents of $23,275,072, Net Patient Accounts Receivable of $8,479,085, Restricted Assets Under Bond Agreements of $8,447,052, and Capital Assets of $24,979,207. The decrease in Net Patient Accounts Receivable and the increase in Cash and Cash Equivalents during 2007 resulted from the improved revenue cycle management by First Consulting Group and MedAssist, two outside billing specialists. An emphasis on timely communication with third party payers was instrumental for growth in Cash and Cash Equivalents in 2007. The same factors were responsible for the increase in Cash and Cash Equivalents and decrease in Net Patient Accounts Receivable in 2006.

Comparable asset balances at December 31, 2005 were as follows: Cash and Cash Equivalents of $9,267,524, Net Patient Accounts Receivable of $15,193,098, Restricted Assets Under Bond Agreements of $8,864,663 and Capital Assets of $23,684,950.

Aspen Valley Hospital's total liabilities at December 31, 2007 were $34,317,160 consisting primarily of Accounts Payable of $5,151,850, Accrued Liabilities of $2,705,991, Patient and Insurance Refunds of $340,021 and Revenue Bonds Payable of $23,478,531. The $1,841,573 increase in total liabilities for 2007 is attributable to additional Capital Lease Obligations being incurred, Long Term Debt payments (a reduction in liabilities) and improved refunding processes (a reduction in liabilities), offset by an increase in Accounts Payable due to a number of capital expenditures. Aspen Valley Hospital's total liabilities at December 31, 2006 were $32,475,587 consisting primarily of Accounts Payable of $2,539,543, Accrued Liabilities of $2,618,415, Patient and Insurance Refunds of $871,057 and Revenue Bonds Payable of $24,250,000. The $806,462 reduction in total liabilities in 2006 was attributable to Long Term Debt payments and improved refunding processes.

Comparable liabilities balances at December 31, 2005 were as follows: total liabilities of $33,282,049, Accounts Payable of $2,431,979, Accrued Liabilities of $2,668,581, Patient and Insurance Refunds of $1,144,270 and Revenue Bonds Payable of $24,700,000.

Unrestricted Net Assets in 2007 is $34,710,517 compared to $28,275,208 in 2006. The change for both years, 2007 and 2006, was due to the positive operating results experienced. The increase in total net assets of $9,999,042 from 2006 to 2007 represents the net income reported for Aspen Valley Hospital for 2007. In order to get a more comparable Net Assets value to 2006, the Net Assets of the Component Units of $418,721 would need to be added to the total Net Assets of the Hospital due to the new reporting presentation. This results in Net Assets value for 2007 of $47,301,310 and an increase in Net Assets of $10,417,763. Net Assets represent the cumulative changes in operations gains and losses since the inception of the entity.

2. STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Patient Service Revenues

The Hospital classifies revenues as operating and non-operating revenues. Operating revenues consist of Net Patient Service Revenues and Other Revenues. Net Patient Service Revenues result from direct patient care. The Hospital further divides Net Patient Service Revenues into inpatient service revenues and outpatient service revenues.

Net Patient Service Revenues increased $4,446,766 or 9% in 2007 as compared to $5,084,925 or 12% in 2006 and $654,834 or 2% in 2005. Net Patient Service Revenue for 2007 is $52,386,773 compared to $47,920,007 in 2006 and $42,835,082 for 2005.

The Hospital's outpatient service revenues continue to exceed the inpatient service revenues, with 65% of the Hospital's 2007 Gross Patient Service Revenues generated by outpatient services compared to 63% in 2006. The departments contributing most to outpatient revenues during both 2007 and 2006 were outpatient surgeries, emergency room, laboratory, and diagnostic imaging.

The largest portion of the Hospital's Gross Patient Service Revenues was derived from Commercial health plans; 62% during 2007, 66% during 2006, and 68% in 2005. In addition, the Hospital derived approximately 22% of Gross Patient Service Revenues from Medicare in 2007 compared to 23% in 2006 and 21% in 2005 Payments for services rendered to patients under these programs are less than billed charges; therefore, the Hospital 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. The decrease in the above-mentioned payor mix for 2007 is relative to the increase in self-pay payers for 2007.

Other Operating Revenues consist of services provided by the Hospital not directly related to patient care. In 2007, Other Operating Revenues decreased $133,648 from 2006, and increased $140,626 from 2005 to 2006. The decrease from 2006 to 2007 is primarily due to the restructure of operating contracts that included a separate billing fee collection in 2006, whereas the fee was eliminated in 2007.

Non-Operating Revenues and Expenses are comprised of Ad Valorem Taxes, Investment Income, Interest Expense, Noncapital Contributions, Gain or Loss on Investment in Joint Venture, and Gain or Loss on Disposal of Capital Assets. Non-Operating Revenues for 2007 were $3,478,042 compared to 2006 of $3,470,249 and 2005 of $2,567,137. The reported change from 2006 to 2007 shows a modest increase of $7,793 for Non-Operating Revenues due to the new change in reporting presentation for Component Units. Net Assets at the end of 2007 is $47,301,310 for the Hospital; a $9,999,042 increase from 2006. The Net Assets gain is attributable to cash generated from operations, an increase in Property, Plant, and Equipment, offset by an increase in Accounts Payable.

The marked increase in Non-Operating Revenues for 2006 is due to the increase in investment income derived from the increase in Cash and Cash Equivalents and the increase in the Hospital's share of revenue provide from the Ambulatory Surgery Center. The $224,004 increase in Non-Operating Revenues from 2005, was driven by modest gains on the Hospital's share of revenue provide from the Ambulatory Surgery Center and investment income increases due to the increase in Cash and Cash Equivalents.

Expenses

Operating Expenses increased from 2006 by $2,810,353. The major expense incurred by the Hospital in 2007 is Salaries and Wages of $19,048,116 compared to $17,116,379 in 2006 and $16,247,685 in 2005. The $1,931,737 increase in Salaries and Wages from 2006 related to the growth in full-time equivalents needed to maintain current service line demands and to explore additional community health care needs. The $868,694 increase in Salaries and Wages from 2005 was due to re-employment of outsourced personnel in Admissions, Medical Records, and Information Technologies. Conversely, the decrease in Salaries and Wages from 2004 to 2005 was due to the outsourcing of revenue cycle personnel to gain operational efficiencies. Patient care supplies rose in 2007 to $5,225,263 from $4,981,082 reported in 2006 and $3,185,586 during 2005.

Provision For Doubtful Accounts

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

The primary collection risk is related to patients' payment portions not covered by their primary insurance (deductibles and co-payments). The Hospital estimated the Provision for Doubtful Accounts based primarily upon the age of Accounts Receivable and the effectiveness of the Hospital's third-party payer collection efforts.

Significant changes in payer mix, Hospital operations, economic conditions, and trends in Federal and State governmental health care coverage affect the Hospital's collection of Accounts Receivable, cash flows, and results of operations. In 2007, the Hospital reported Provision for Bad Debts of $283,794, compared to $3,304,235 for 2006, and $7,319,404 for 2005. The marked decrease in the Provision for Bad Debts for 2007 and 2006 is directly related to First Consulting Group and MedAssist's analysis of the Hospital's revenue cycle processes and subsequent recommendations for modification.

Accounts written-off as Charity and Indigent Care are excluded from Net Patient Service Revenue. Charity and Indigent Care write-offs were $2,160,243 or 3% of Gross Patient Service Revenues for 2007, compared to $2,035,186 or 3% of Gross Patient Service Revenues for 2006, compared to $1,933,631 or 3% for 2005 Gross Patient Service Revenues for 2005.

3. STATEMENT OF CASH FLOWS

Liquidity and Capital Resources

The Hospital's cash flows from operations and Ad Valorem Taxes provide the primary sources of funding for the Hospital's ongoing cash needs.

The following is a summary of cash flows for the calendar years ended on December 31, 2007, 2006, and 2005:

Cash Flows	2007	2006	2005
Operating Activities	$8,811,624	$14,322,642	$1,924,984
Non-Capital Financing Activities	3,154,067	2,995,983	2,871,661
Capital & Related Financing Activities	(8,055,399)	(5,558,244)	(4,392,036)
Investing Activities	373,029	1,829,556	1,194,693
Net Increase/(Decrease) in Cash	**$4,283,321**	**$13,589,937**	**$1,599,302**

The Hospital's cash flow from Operating Activities decreased $5,511,018 from 2006 as a result of decreased cash received from patients and third-party payers of $855,249, decreased cash received from others of 1,781,534, increased payments to suppliers of $915,291 and increased payments to employees of $1,958,944. The biggest contributing factor for the decrease in cash received from others is due to the physician guarantee contracts entered into during 2007. The $158,084 increase of Non-Capital Financing Activities from 2006 is attributable to the increase in assessed property values in Pitkin County for 2007 and a $29,206 reduction in Non-capital Contributions made to the Hospital. The Noncapital Contributions reduction is in accordance with mutually agreed upon operational changes by the Hospital and the Aspen Valley Medical Foundation. Capital & Related Financing Activities increased $2,497,155 from 2006. The largest part of the increase in Capital & Related Financing Activities is attributable to the purchase of capital assets; in particular the construction of the Aspen Birthing Center.

The Hospital's cash flows from operations increased during 2006 because of marked reductions in Accounts Receivable attributable to increased payments from third-party payers and patients, and from improved operating results. No additional debt was issued during 2006 or 2005. The Hospital's cash flows from operations increased during the 2005 calendar year as a result of decreased payments to suppliers of $3,472,937 and decreased payments to employees of $3,230,094.

Outstanding Debt Securities

The Hospital did not issue additional debt in 2007. However, on February 12, 2007, the outstanding Series 2000 and 2001 bonds were defeased with the issuance of Hospital Refunding Bonds – Series 2007. Proceeds from the bonds were used to purchase securities that were deposited in trust under an escrow agreement sufficient to pay future principal and interest and redemption premiums on the defeased bonds. Additionally, a loss on refunding of $991,240 was recorded by the Hospital. These refunding activities resulted in the reduction of expenses relating to Long-Term Debt.

On October 15, 2003, the Hospital issued Revenue Bonds in the amount of $11,715,000, with an irrevocable letter of credit. Pursuant to the issuance of the Revenue Bonds, the Hospital signed a Reimbursement Agreement, which contained covenants that were met by the Hospital during the calendar years 2007, 2006 and 2005.

BUDGETARY HIGHLIGHTS

The Hospital is responsible for funding expenses from cash generated through its operations and from the Ad Valorem Taxes received during the calendar year. The Hospital 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 Hospital's Board of Directors approved the 2007 and 2006 budgets during the last quarter of the 2006 and 2005 calendar years, respectively. There were no amendments made to the original budgets presented to the State of Colorado for the calendar years 2007, 2006 and 2005.

During 2007, Net Patient Service Revenue is $297,883 or less than 1% lower than budget, while Operating Expenses were $3,689,307 or 7% lower than budget due to the Provision for Bad Debts projection. For 2006 calendar year, Net Patient Service Revenue was $5,718,233 or 14% higher than budget, while Operating Expenses were $1,720,283 or 4% higher than budgeted expenses. For the 2005 calendar year, Net Patient Service Revenues were $1,908,593 or 5% higher than budget while Operating Expenses were 2% lower than budgeted expenses by $1,004,998.

Please see Attachment A for the Statement of Budget and Actual Revenues and Expenses for the year ended December 31, 2007.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

During 2007, the Hospital continued to outsource its billing office to First Consulting Group and MedAssist. This arrangement has yielded good results, as evidenced by the marked increase in Cash and Cash Equivalents and the marked decrease in Accounts Receivable during 2007 and 2006. It is the Hospital's intention to continue this outsourcing arrangement indefinitely.

Assessed property values in Pitkin County (the major service area of the Hospital) increased approximately 40% in 2007. Consequently, the Hospital will receive an additional $593,277 in Ad Valorem Tax revenues during calendar year 2008. The Board of Directors has designated this additional revenue for the purpose of developing future employee housing.

In February 2008, the Hospital submitted an application to the City of Aspen for conceptual approval of a Master Facility Plan that would entail a major renovation and expansion of the Hospital. If approved, the project is anticipated to be completed over the next 5 to 7 years, and will cost approximately $100 million. Funding for the Master Facility Plan will come from the internal reserves of the Hospital, additional debt and/or tax support, and philanthropic support.

In creating its budget for 2008, the Hospital assumed a slight increase in patient volumes over 2007, and also implemented a 5% price increase. The price increase was determined by the use of an outside consultant who specializes in healthcare pricing issues to ensure that the Hospital's prices are reasonable and competitive for this service area. Expenses were budgeted by considering historical expense levels, anticipated patient volumes for 2008, new service line development, and estimated levels of inflation for the year.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This discussion and analysis is designed to provide interested parties with a general overview of Aspen Valley Hospital District's financial activity for the 2007 and 2006 calendar years and to demonstrate the Hospital's accountability for the funds it received for providing healthcare services to members of this community and to visitors. If you have questions about this report or need additional information, please contact Aspen Valley Hospital District's Chief Financial Officer (Terry Collins) at 0401 Castle Creek Road, Aspen, Colorado 81611.

Aspen Valley Hospital District

STATEMENT OF BUDGET AND ACTUAL REVENUES AND EXPENSES

Year ended December 31, 2007

	Budgeted Amount	Actual	Favorable (Unfavorable) Variance
Patient Service Revenues			
Ambulance	$ 745,812	$ 871,755	$ 125,943
Cardiac Rehabilitation	177,689	177,643	(46)
Cardiology Clinic	2,298,740	2,284,870	(13,870)
Cardiopulmonary	2,544,776	2,480,153	(64,623)
Central Sterilizing	-	1,241	1,241
Diabetes Education	34,191	26,104	(8,087)
Diagnostic Imaging	11,937,154	11,551,805	(385,349)
Emergency Room	4,860,048	5,066,978	206,930
Endoscopy	629,323	648,465	19,142
Intensive Care Unit	1,566,473	1,131,522	(434,951)
Laboratory	7,675,785	7,472,614	(203,171)
Mental Health	4,913	2,195	(2,718)
Nutritional Services	10,833	9,027	(1,806)
Obstetrics	2,190,624	2,015,382	(175,242)
Outpatient Clinic	395,482	453,613	58,131
Pain Management Clinic	385,095	544,215	159,120
Patient Care Unit	4,679,128	4,443,243	(235,885)
Pharmacy	8,710,177	7,564,203	(1,145,974)
Physical Therapy	3,141,144	2,883,944	(257,200)
Recovery	1,041,189	1,071,712	30,523
Same Day Surgery	488,959	524,804	35,845
Surgery	12,029,237	12,547,968	518,731
Trauma Services	4,098,101	4,002,998	(95,103)
Total Patient Service Revenues	69,644,873	67,776,454	(1,868,419)
Revenue Deductions	(20,893,461)	(15,389,681)	5,503,780
Net Patient Revenues	48,751,412	52,386,773	3,635,361
Other Revenues	1,681,640	1,662,043	(19,597)
Total Operating Revenues	50,433,052	54,048,816	3,615,764
Operating Expenses			
Admissions	559,862	558,881	981
Ambulance	916,737	974,598	(57,861)
Cardiac Rehabilitation	202,847	178,108	24,739
Cardiology Clinic	536,040	583,825	(47,785)
Cardiopulmonary	1,235,513	1,059,426	176,087

Attachment A

Aspen Valley Hospital District

STATEMENT OF BUDGET AND ACTUAL REVENUES AND EXPENSES - continued

Year ended December 31, 2007

	Budgeted Amount	Actual	Favorable (Unfavorable) Variance
Central Sterilizing	$ 226,789	$ 259,640	$ (32,851)
Community Relations	736,274	550,669	185,605
Diabetes Education	123,822	110,259	13,563
Diagnostic Imaging	4,215,887	3,797,657	418,230
Emergency Room	3,800,612	4,459,639	(659,027)
Employee Health	148,819	126,589	22,230
Employee Housing	715,152	650,319	64,833
Endoscopy	138,784	116,374	22,410
Engineering	2,217,009	1,941,260	275,749
Finance	673,452	895,291	(221,839)
General & Administrative	3,047,799	3,057,999	(10,200)
Health Information Systems	844,941	820,245	24,696
Housekeeping & Laundry	724,533	719,362	5,171
Human Resources	4,867,091	5,138,059	(270,968)
Information Technology	1,880,647	1,935,577	(54,930)
Intensive Care Unit	694,709	667,406	27,303
Laboratory	2,744,727	2,595,846	148,881
Language Resources	68,999	59,499	9,500
Legal & Compliance	303,425	275,587	27,838
Materials Management	463,107	345,397	117,710
Medical Staff	129,316	33,978	95,338
Mentorship Program	-	31,663	(31,663)
Nursing Administration	562,986	669,969	(106,983)
Nursing Education	261,355	204,333	57,022
Nutritional Services	924,871	922,303	2,568
Obstetrics	1,425,934	1,411,627	14,307
Outpatient Clinic	350,042	307,494	42,548
Pain Management Clinic	68,992	76,550	(7,558)
Patient Care Unit	1,585,910	1,618,285	(32,375)
Patient Education	44,578	10,018	34,560
Patient Financial Services	1,507,906	2,254,585	(746,679)
Pharmacy	2,534,418	2,383,657	150,761
Physical Therapy	1,187,011	1,099,400	87,611
QA/Risk Management	342,290	289,489	52,801
Recovery	291,898	196,924	94,974
Same Day Surgery	332,753	366,809	(34,056)
Surgery	3,107,109	3,347,467	(240,358)
Trauma Services	140,222	126,485	13,737

Aspen Valley Hospital District

STATEMENT OF BUDGET AND ACTUAL REVENUES AND EXPENSES - continued

Year ended December 31, 2007

	Budgeted Amount	Actual	Favorable (Unfavorable) Variance
Utilization Review & Discharge	$ 170,854	$ 127,508	$ 43,346
Wellness Program	27,912	19,584	8,328
Whitcomb Terrace	733,069	647,653	85,416
Total Operating Expenses	47,817,003	48,023,293	(206,290)
Operating Profit	2,616,049	6,025,523	3,409,474
Nonoperating Revenues (Expenses)			
Ad Valorem Taxes	3,122,927	3,036,555	(86,372)
Investment Income	902,458	1,604,227	701,769
Interest Expense	(1,377,847)	(1,269,259)	108,588
Noncapital and Capital Contributions	55,000	117,512	62,512
Gain on Investment in Joint Venture	650,000	144,326	(505,674)
Other	-	(155,319)	(155,319)
Total Nonoperating Revenues (Expenses)	3,352,538	3,478,042	125,504
Income Before Capital Contributions, Member Distributions, Net, Equity Contribution, Minority Interests and Change in Reporting Presentation	5,968,587	9,503,565	3,534,978
Capital Contributions	500,000	884,298	384,298
Member Distributions, net	-	561,812	561,812
Equity Contribution	-	(400,000)	(400,000)
Minority Interests	-	-	-
Change in Reporting Presentation	-	(550,633)	(550,633)
Change in Net Assets	$ 6,468,587	$ 9,999,042	$ 3,530,455

FINANCIAL STATEMENTS

Aspen Valley Hospital District

BALANCE SHEETS

December 31,

ASSETS

	2007		2006
	Aspen Valley Hospital	Component units	Aspen Valley Hospital
CURRENT ASSETS			
Cash and cash equivalents	$31,397,091	$ 107,324	$23,275,072
Patient accounts receivable, net	7,002,567	818,010	8,479,085
Contributions receivable	479,390	-	513,770
Other receivables	1,794,001	8,199	602,251
Inventories	1,459,425	167,552	1,350,241
Investments	1,393,010	-	-
Prepaid expenses	362,824	258,557	442,175
Total current assets	43,888,308	1,359,642	34,662,594
RESTRICTED ASSETS - WHOSE USE IS LIMITED UNDER BOND AGREEMENT	4,608,354	-	8,447,052
CONTRIBUTIONS RECEIVABLE	1,206,796	-	573,559
INVESTMENT IN JOINT VENTURE	144,326	-	550,633
CAPITAL ASSETS			
Land	267,057	-	267,057
Depreciable capital assets, net of accumulated depreciation	30,974,478	335,092	24,712,150
Total capital assets, net of accumulated depreciation	31,241,535	335,092	24,979,207
OTHER ASSETS (NET)	529,151	193,800	564,810
Total assets	$81,618,470	$ 1,888,534	$69,777,855

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	2007		2006
	Aspen Valley Hospital	Component units	Aspen Valley Hospital
CURRENT LIABILITIES			
Current maturities of long-term debt	$ 1,084,237	$ -	$ 1,003,851
Accounts payable	5,151,850	42,616	2,539,543
Accrued salaries, benefits and payroll taxes	1,346,223	-	1,480,167
Other accrued liabilities	1,359,768	235,686	1,138,248
Refunds payable	340,021	-	871,057
Unclaimed refunds payable	972,470	-	841,379
Due to Medicare	190,709	-	117,294
Total current liabilities	10,445,278	278,302	7,991,539
LONG-TERM DEBT			
Revenue bonds payable	22,947,998	-	23,775,000
Capital lease obligations	923,884	-	709,048
	23,871,882	-	24,484,048
Total liabilities	34,317,160	278,302	32,475,587
CONTINGENCIES AND COMMITMENTS			
MINORITY INTERESTS	-	640,878	-
NET ASSETS			
Invested in capital assets, net of related debt	8,395,953	-	5,336,444
Restricted			
For debt service	2,508,654	-	2,601,917
Expendable for capital acquisitions	1,638,046	-	1,002,767
Expendable for specific operating activities	48,140	-	85,932
Unrestricted	34,710,517	969,354	28,275,208
Total net assets	47,301,310	969,354	37,302,268
Total liabilities and net assets	$81,618,470	$ 1,888,534	$69,777,855

Aspen Valley Hospital District

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS

Year ended December 31,

	2007		2006
	Aspen Valley Hospital	Component units	Aspen Valley Hospital
Operating revenues			
Net patient service revenue	$52,386,773	$ 3,121,239	$47,920,007
Other revenues	1,662,043	-	1,795,691
Total operating revenues	54,048,816	3,121,239	49,715,698
Operating expenses			
Salaries and wages	19,048,116	543,677	17,116,379
Contract labor	2,001,865	-	1,429,632
Supplies and other	23,752,704	1,204,445	23,161,872
Depreciation and amortization	3,220,608	156,100	3,505,057
Total operating expenses	48,023,293	1,904,222	45,212,940
Operating income	6,025,523	1,217,017	4,502,758
Nonoperating revenues (expenses)			
Ad valorem taxes	3,036,555	-	2,849,265
Investment income	1,604,227	22,413	1,130,856
Interest expense	(1,269,259)	-	(1,371,929)
Noncapital contributions	117,512	-	146,718
Gain on investment in joint venture	144,326	-	908,901
Loss on disposal of capital assets	(155,319)	-	(193,562)
Total nonoperating revenues (expenses)	3,478,042	22,413	3,470,249
Income before capital contributions, member distributions, net, equity contribution, minority interests and change in reporting presentation	9,503,565	1,239,430	7,973,007
Capital contributions	884,298	-	1,320,107
Member distributions, net	561,812	(1,247,975)	-
Equity contribution	(400,000)	500,000	-
Minority interests	-	(72,734)	-
Change in reporting presentation	(550,633)	-	-
Change in net assets	9,999,042	418,721	9,293,114
Net assets at beginning of year	37,302,268	550,633	28,009,154
Net assets at end of year	$47,301,310	$ 969,354	$37,302,268

The accompanying notes are an integral part of these statements.

Aspen Valley Hospital District

STATEMENTS OF CASH FLOWS

Year ended December 31,

	2007		2006
	Aspen Valley Hospital	Component units	Aspen Valley Hospital
Cash flows from operating activities			
Cash received from patients and third-party payers	$53,536,761	$ 3,182,896	$54,392,010
Cash received from (paid to) others	(120,643)	(208,611)	1,660,891
Cash paid to suppliers	(25,422,434)	(1,463,860)	(24,507,143)
Cash paid to employees	(19,182,060)	(543,677)	(17,223,116)
Net cash provided by operating activities	8,811,624	966,748	14,322,642
Cash flows from noncapital financing activities			
Ad valorem taxes	3,036,555	-	2,849,265
Noncapital contributions	117,512	-	146,718
Net cash provided by noncapital financing activities	3,154,067	-	2,995,983
Cash flows from capital and related financing activities			
Issuance of long-term debt	13,595,000	-	-
Refunding of Series 2000 and 2001 bonds	(12,910,000)	-	-
Principal payments on debt	(2,095,940)	-	(1,122,149)
Interest payments on debt	(1,269,259)	-	(1,371,929)
Purchases of capital assets	(7,474,969)	(170,919)	(4,404,373)
Proceeds from the sale of capital assets	1,215,471	-	20,100
Capital contributions	884,298	-	1,320,107
Net cash used in capital and related financing activities	(8,055,399)	(170,919)	(5,558,244)
Cash flows from investing activities			
Purchases of investments, net	(1,393,010)	-	-
Investment income	1,604,227	22,413	1,130,856
Member distributions, net	561,812	(1,247,975)	698,700
Equity contribution	(400,000)	500,000	-
Net cash provided by investing activities	373,029	(725,562)	1,829,556
Net increase in cash and cash equivalents	4,283,321	70,267	13,589,937
Cash and cash equivalents at beginning of year	31,722,124	37,057	18,132,187
Cash and cash equivalents at end of year	$36,005,445	$ 107,324	$31,722,124

Aspen Valley Hospital District

STATEMENTS OF CASH FLOWS - CONTINUED

Year ended December 31,

	2007		2006
	Aspen Valley Hospital	Component units	Aspen Valley Hospital
Reconciliation of cash and cash equivalents to the balance sheets			
Cash and cash equivalents	$31,397,091	$ 107,324	$23,275,072
Restricted assets - whose use is limited under bond agreement	4,608,354	-	8,447,052
Total cash and cash equivalents	$36,005,445	$ 107,324	$31,722,124
Reconciliation of operating income to net cash provided by operating activities			
Operating income	$ 6,025,523	$ 1,217,017	$ 4,502,758
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	3,220,608	156,100	3,505,057
Provision for bad debts	283,794	-	3,304,235
Change in assets and liabilities			
Accounts receivable	1,192,724	61,657	3,409,778
Contributions receivable	(598,857)	-	(211,726)
Other receivables	(1,191,750)	(8,199)	88,454
Inventories	(109,184)	(48,275)	62,867
Prepaid expenses	79,351	(273,140)	(111,580)
Other assets	7,921	(200,412)	(11,528)
Accounts payable	140,448	16,019	76,503
Accrued salaries, benefits and payroll taxes	(133,944)	-	(106,737)
Other accrued liabilities	221,520	45,981	56,571
Refunds payable	(531,036)	-	(273,613)
Unclaimed refunds payable	131,091	-	750,968
Due to Medicare	73,415	-	(719,365)
Net cash provided by operating activities	$ 8,811,624	$ 966,748	$14,322,642

Supplemental schedule of noncash capital and financing activities

The District entered into capital lease obligations for equipment of $879,160 and $500,299 in 2007 and 2006, respectively.

Capital assets additions in accounts payable and other accrued liabilities were $2,606,708 and $134,849 in 2007 and 2006, respectively.

The accompanying notes are an integral part of these statements.

Aspen Valley Hospital District

STATEMENTS OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

Year ended December 31,

	2007	2006
ASSETS		
Investments	$ 9,973,207	$ 9,590,361
NET ASSETS - held for pension benefits	$ 9,973,207	$ 9,590,361

The accompanying notes are an integral part of these statements.

Aspen Valley Hospital District

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

Year ended December 31,

	2007	2006
Additions		
Contributions for employee benefits	$ 804,127	$ 975,344
Investment earnings	110,126	1,038,805
Total additions	914,253	2,014,149
Deductions		
Benefits	718,184	899,256
Administrative expenses	(186,777)	185,525
Total deductions	531,407	1,084,781
Change in net assets	382,846	929,368
Net assets at beginning of the year	9,590,361	8,660,993
Net assets at end of the year	$ 9,973,207	$ 9,590,361

The accompanying notes are an integral part of these statements.

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. *Reporting entity*

Aspen Valley Hospital District (the District), a political subdivision of the State of Colorado, operates the Aspen Valley Hospital (the Hospital), a 25-bed acute care facility that is designated by Medicare as a Critical Access Hospital located in Aspen, Colorado; Mountain Oaks and the Beaumont Lodge, both employee housing complexes; and has an 8% 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.

The 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 Roaring Fork Midvalley Surgicenter, LLC (RFMS), a Colorado nonprofit organization that is a subsidiary of the Hospital; and Surgical Management, LLC (SM), a Colorado corporation. The equity interests are 51% and 49%, respectively. The operating agreement between RFMS and SM states that RFMS shall elect three persons as board members and SM shall elect two persons as board members. As RFMS owns a 51% ownership interest in ASC and appoints a voting majority of ASC's board members, RFMS can impose its will on ASC. However, ASC does not provide services to RFMS. As a result, ASC is considered a component unit of the District and included in the financial statements of the District for the year ended December 31, 2007 using discrete presentation. ASC was reported in the 2006 financial statements of the District as a joint venture (see Note B).

In November 2007, the Snowmass Clinic Associates, LLP (SMC) was organized as a Colorado limited liability partnership to operate a medical clinic and triage facility located in Snowmass, Colorado. The partners of SMC include the District and Orthopaedic Associates, PC (OA), a Colorado professional corporation. The partnership interests are 80% and 20%, respectively. As the District owns an 80% partnership interest in SMC, the District can impose its will on SMC. However, SMC does not provide services to the District. As a result, SMC is considered a component unit of the District and included in the financial statements of the District for the year ended December 31, 2007 using discrete presentation.

2. *Use of estimates*

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

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. *Proprietary fund accounting*

The District's government-wide financial statements (balance sheets and statements of revenues, expenses and changes in net assets and statements of cash flows) are comprised of an enterprise fund and discretely presented component units that use proprietary fund reporting. The only other fund of the District is a fiduciary fund (employee retirement fund) that is excluded from the government-wide financial statements and is presented separately as fund financial statements. The District utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

4. *Cash equivalents*

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2007 and 2006, cash equivalents consisted primarily of money market accounts with banks.

5. *Patient accounts receivable, net/net patient service revenue*

Patient accounts receivable, net/net patient service revenue is recorded at list price with contractual adjustments (which represent the difference between charges and the amount received or receivable from third-party payors) and the allowance for doubtful accounts and bad debts deducted to arrive at net receivables/net patient service revenue. The allowance for doubtful accounts is provided for at various percentages of accounts receivable, with a corresponding entry to bad debts. Contractual adjustments have been estimated by using historical payment percentages as well as payor specific contractual agreements. When individual accounts are determined to be uncollectible, the accounts are written off.

6. *Physician guarantee contracts*

Physician guarantee contracts are recorded in accordance with Financial Interpretation No. (FIN) 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. The physician guarantee receivables represent the estimated future benefit to be received over the contractual life of the physician guarantee contracts. These receivables are included in other receivables in the balance sheet. Physician guarantee payables represent the estimated remaining liability to the District over the contractual life of the physician guarantee contracts. These payables are included in other accrued liabilities in the balance sheet.

7. *Inventories*

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

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. *Investments and investment income*

Investments in U.S. Treasury and agency obligations with a remaining maturity of one year or less at the time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost, which approximates fair value. All other investments are carried at fair value. Fair value is determined using quoted market prices. Investment income includes dividend and interest income, realized gains and losses on investments and the net change for the year in the fair value of investments carried at fair value.

9. *Assets limited as to use*

Assets limited as to use are assets held by trustees under the Bond Indenture Agreements and include unspent project funds from the 2003 bond issue that are restricted for capital acquisition, construction and improvement.

10. *Capital assets*

The District's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using the following asset lives:

Land improvements	7-25 years
Building	5-40 years
Fixed equipment	5-20 years
Movable equipment	3-20 years
Employee housing	5-25 years

The District capitalizes interest costs as a component of construction in progress funded by borrowings based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. The District capitalized net interest costs of $18,335 and $62,198 for years ended December 31, 2007 and 2006, respectively.

The District has not acquired any general infrastructure assets.

11. *Debt issuance costs*

Debt issuance costs consist of costs incurred in connection with the issuance of debt obligations and are included in other assets. These costs have been deferred and are being amortized over the life of the related debt using the effective interest method.

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. *Bond premium and loss on refunding*

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

13. *Net assets*

Net assets of the District are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by any outstanding borrowings and related accounts used to finance the purchase or construction of those assets. Restricted net assets are net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees as required by revenue bond indentures. It is the District's policy to apply restricted resources for purposes for which the resources have been designated. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt or restricted.

14. *Operating revenues and expenses*

The District's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services (net patient service revenue) and other revenues which include income from employee housing, cafeteria revenue, outpatient pharmacy revenue, and other miscellaneous revenue. Nonexchange revenues, including ad valorem taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

15. *Charity care*

The District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Net patient service revenue is reported net of charity care. Charges excluded from revenue under the District's charity care policy were $2,160,243 and $2,035,186 for 2007 and 2006, respectively.

NOTE A - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

16. *Ad valorem taxes*

The District received approximately 5% of its sources of funds from ad valorem taxes in 2007 and 2006. These funds were used to support the capital and operating needs of both the Hospital District and the Ambulance District (which operates as a department of the Hospital District). In November 2005, the voters in the District approved the Hospital District's mill levy for a five-year period through 2010.

Ad valorem taxes for both districts are assessed on January 1 of each year. The Hospital District recognizes the tax revenue in the period it is assessed. For 2008, Pitkin County assessed property values increased by 40%. This increase will generate additional ad valorem taxes of $593,277 annually for the Hospital District.

17. *Grants and contributions*

From time to time, the District receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

18. *Income taxes*

As a political subdivision of the State of Colorado, the District is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

NOTE B - DEPOSITS AND INVESTMENTS

Deposits

The Colorado Public Deposit Protection Act requires financial institutions to collateralize any uninsured public deposits. Any excess of deposits over the FDIC limit that are not insured are covered by collateral pledged by the financial institution in accordance with the Colorado Public Deposit Protection Act.

NOTE B - DEPOSITS AND INVESTMENTS - Continued

At December 31, the District had bank balances as follows:

	2007	2006
FDIC insured	$ 300,000	$ 300,000
Collateralized by securities held by the pledging financial institution's trust department or agent in other than the District's name	34,424,277	23,817,648
Total	$ 34,724,277	$ 24,117,648
Carrying value on the balance sheets at December 31	$ 33,857,700	$ 24,609,482

The carrying value on the balance sheets at December 31, 2007 and 2006 includes $1,070,250 and $1,336,560, respectively, of assets limited as to use under bond agreements.

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, 2007 and 2006, investments amounted to $15,974,571 and $18,037,413, respectively. All investments under bond agreements, with the exception of those included in deposits above, were invested in direct obligations of the U.S. Government through pooled investments.

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

Summary of Carrying Values

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

	2007	2006
Carrying value		
Deposits	$ 33,857,700	$ 24,609,482
Investments	13,511,312	16,700,853
Cash on hand and change funds	2,650	2,150
	$ 47,371,662	$ 41,312,485

NOTE B - DEPOSITS AND INVESTMENTS - Continued

Included in the following balance sheet captions		
Cash and cash equivalents	$ 31,397,091	$ 23,275,072
Investments	1,393,010	-
Assets limited as to use		
Under bond agreement	4,608,354	8,447,052
Under pension plan agreement (fiduciary assets)	9,973,207	9,590,361
	$ 47,371,662	$ 41,312,485

Midvalley Ambulatory Surgery Center, LLC (Note A 1)

The District has a 51% equity interest in a limited liability company established to operate an ambulatory surgery center at December 31, 2007 and 2006. The investment was accounted for as a joint venture for the year ended December 31, 2006. The following is a condensed statement of financial position as of December 31, 2006, and the related revenues, expenses and change in net assets for the year then ended:

Current assets	$ 1,036,001
Property and other long-term assets, net	255,787
Total assets	$ 1,291,788
Current liabilities	$ 26,597
Note payable and other long-term liabilities	146,414
Net assets - unrestricted	1,118,777
Total liabilities and net assets	$ 1,291,788
Revenues	$ 3,114,054
Expenses	1,331,896
Total change in net assets for ASC	$ 1,782,158
The District's 51% interest in total change in net assets for ASC as of December 31, 2006	$ 908,901

In 2006, the District did not have an equity interest in SMC.

NOTE C - PATIENT ACCOUNTS RECEIVABLE, NET/NET PATIENT SERVICE REVENUE

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. These payment arrangements include:

Medicare – The District is licensed as a Critical Access Hospital. Under this reimbursement system, inpatient acute care and swing-bed services rendered to Medicare program beneficiaries are paid under cost reimbursement methodologies. Outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and cost reimbursement methodologies. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the District and audit thereof by the Medicare fiscal intermediary.

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

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 accounts receivable and net patient service revenue is computed as follows for the years ended December 31:

	2007	2006
Patient accounts receivable, gross	$ 9,536,924	$ 15,247,809
Allowance for uncollectible accounts	(820,853)	(4,327,000)
Allowance for contractual adjustments	(1,713,504)	(2,441,724)
Patient accounts receivable, net	$ 7,002,567	$ 8,479,085
Gross patient service revenue	$ 67,776,454	$ 66,731,341
Less:		
Medicare contractuals	5,113,412	6,298,725
Medicaid contractuals	795,042	622,237
Other contractuals and adjustments	7,037,190	6,550,950
Charity care	2,160,243	2,035,186
Provision for bad debts	283,794	3,304,235
Net patient service revenue	$ 52,386,773	$ 47,920,008

NOTE D - CONCENTRATION OF CREDIT RISK

The District grants credit without collateral to its patients, most of which are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31 are as follows:

	2007	2006
Medicare	14%	18%
Medicaid	3	2
Blue Cross	10	9
Other third-party payors	62	66
Self-pay	11	5
	100%	100%

NOTE E – PHYSICIAN GUARANTEE CONTRACTS

During 2007, the District entered into income guarantee contracts for several physicians. The District, as the guarantor, has agreed to make payments to the physicians, the guaranteed party, per month if the gross cash collections generated by the physicians' new practice during the month do not equal or exceed a specific minimum amount stated in each physician's contract. A majority of the physician guarantee contracts have a guarantee period of 12 months and a forgiveness period of 24 months. There is one physician guarantee contract that has a guarantee period of 12 months, and a forgiveness period of 15 months. For those physicians under a guarantee contract with a forgiveness period, they are required, for a minimum of their commitment period, which consists of 24 to 36 months, to diligently and fully devote their efforts and time to the operation of their practice in Aspen, Colorado. In the event that these physicians fail to perform their obligations under their contract, they are to reimburse the District all sums advanced to them minus any amounts forgiven pursuant to the terms of their respective contracts. The District has signed promissory notes with the physicians. The maximum potential amount of future undiscounted payments the District could be required to make under the physician guarantee contracts totaled $399,586 at December 31, 2007. The carrying amount of the liability for the District's obligations under the guarantees is $380,563 at December 31, 2007.

NOTE F - CAPITAL ASSETS

Capital assets activity for the years ended December 31, 2007 and 2006 is as follows:

	2007				
	Beginning balance	Additions	Deletions	Transfers	Ending balance
Land	$ 267,057	$ -	$ -	$ -	$ 267,057
Land improvements	658,338	-	-	-	658,338
Building	13,722,898	-	-	-	13,722,898
Fixed equipment	2,601,944	-	-	-	2,601,944
Movable equipment	24,491,762	5,646,500	(3,372,016)	-	26,766,246
Employee housing	7,649,410	211,622	(58,220)	-	7,802,812
Construction in progress	949,407	4,967,866	-	-	5,917,273
Total cost	50,340,816	10,825,988	(3,430,236)	-	57,736,568
Less accumulated depreciation					
Land improvements	551,080	15,296	-	-	566,376
building	6,477,770	569,097	-	-	7,046,867
Fixed equipment	2,478,031	55,407	-	-	2,533,438
Movable equipment	13,680,225	2,283,757	(2,009,315)	-	13,954,667
Employee housing	2,174,503	269,313	(50,131)	-	2,393,685
Total accumulated depreciation	25,361,609	3,192,870	(2,059,446)	-	26,495,033
Capital assets, net	$ 24,979,207	$ 7,633,118	$ (1,370,790)	$ -	$ 31,241,535

	2006				
	Beginning balance	Additions	Deletions	Transfers	Ending balance
Land	$ 267,057	$ -	$ -	$ -	$ 267,057
Land improvements	658,338	-	-	-	658,338
Building	13,722,898	-	-	-	13,722,898
Fixed equipment	2,601,944	-	-	-	2,601,944
Movable equipment	21,880,149	4,211,176	(2,426,175)	826,612	24,491,762
Employee housing	7,609,126	56,944	(16,660)	-	7,649,410
Construction in progress	1,108,405	667,614		(826,612)	949,407
Total cost	47,847,917	4,935,734	(2,442,835)	-	50,340,816
Less accumulated depreciation					
Land improvements	535,757	15,323	-	-	551,080
building	5,904,719	573,091	(40)	-	6,477,770
Fixed equipment	2,417,276	60,755	-	-	2,478,031
Movable equipment	13,375,416	2,520,323	(2,215,514)	-	13,680,225
Employee housing	1,929,799	258,322	(13,618)	-	2,174,503
Total accumulated depreciation	24,162,967	3,427,814	(2,229,172)	-	25,361,609
Capital assets, net	$ 23,684,950	$ 1,507,920	$ (213,663)	$ -	$ 24,979,207

NOTE G - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee disability and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation, short-term disability and employee health care benefits. Settled claims have not exceeded any commercial insurance coverage in any of the three preceding years.

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 $100,000 for the years ended December 31, 2007 and 2006 per individual participant and aggregate stop-loss at predetermined amounts annually. 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.

The following represents changes in related employee health care benefit liabilities for the following two years:

	2007	2006
Unpaid claims at beginning of year	$ 660,994	$ 320,000
Total incurred claims and claim adjustment expenses	3,091,636	2,789,041
Total payments	(3,184,829)	(2,448,047)
Total unpaid claims and claim adjustment expenses at end of year	$ 567,801	$ 660,994

NOTE H - TAX, 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 their operations qualify for this exclusion.

NOTE I - LONG-TERM DEBT

The District has various components of long-term debt as described below.

Hospital Variable Rate Revenue Bonds - Series 2003, interest is computed at the weekly interest rate as determined by A.G. Edwards & Sons, Inc. and is payable each April 15 and October 15. The variable rate at December 31, 2007 and 2006 was 3.48% and 3.93%, respectively. Principal is due on demand but if not demanded, is payable in installments through October 15, 2033. The Bonds are special and limited revenue obligations of the District and are secured by net revenues. Additional security is provided by an irrevocable direct pay letter of credit.

Pursuant to the issuance of the Series 2003 Bonds, a Reimbursement Agreement was signed between Vectra Bank Colorado, Zions First National Bank and the District. The District was in compliance with all covenants pertaining to this agreement at December 31, 2007 and 2006.

Hospital Refunding Bonds – Series 2007, due 2026, payable in increasing varying annual installments through October 15, 2026, bearing interest rates of 4% to 5%, payable semi-annually. The Series 2007 Bonds are issued and pursuant to and are secured by the Bond Resolution. The Bonds are limited obligations payable solely from the net revenues derived from operations of the District.

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

Upon issuance and delivery of the Series 2007 Refunding Revenue Bonds, the District defeased its outstanding Series 2000 and 2001 bonds. Proceeds from the bonds were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the defeased bonds. This advance refunding transaction resulted in an extinguishment of debt since the District was legally released from its obligation on the Series 2000 and 2001 bonds at the time of defeasance. $775,000 and $535,000 of the Series 2000 and 2001, respectively, are outstanding as of December 31, 2007 with varying call dates through October of 2011.

The advance refunding of the Series 2000 and 2001 bonds resulted in an overall future economic benefit for the District. However, an accounting loss of $991,240 on the extinguishment of the long-term debt was recorded in 2007. This loss on refunding is shown as a reduction of the outstanding long-term debt on the balance sheet and is being amortized using the straight-line method over the life of the Series 2000 bonds.

The District has capitalized lease obligations at varying rates of imputed interest maturing between 2008 and 2012 that are collateralized by leased equipment.

NOTE I - LONG-TERM DEBT - Continued

A schedule of changes in the District's long-term debt activity for 2007 and 2006 is as follows:

	2007					
	Beginning balance	Additions	Deletions	Ending balance	Amounts due within one year	Long-term portion
2000 revenue bonds payable	$ 7,305,000	$ -	$ (7,305,000)	$ -	$ -	$ -
2001 revenue bonds payable	5,605,000	-	(5,605,000)	-	-	-
2003 revenue bonds payable	11,340,000	-	(125,000)	11,215,000	125,000	11,090,000
2007 revenue bonds payable	-	13,595,000	(625,000)	12,970,000	440,000	12,530,000
Capital leases	1,237,899	879,160	(639,471)	1,477,588	553,704	923,884
	25,487,899	14,474,160	(14,299,471)	25,662,588	1,118,704	24,543,884
Unamortized premium on Series 2007 bonds	-	253,341	(14,460)	238,881	20,602	218,279
Unamortized loss on refunding 2000 and 2001 bonds	-	(991,240)	45,890	(945,350)	(55,069)	(890,281)
	$ 25,487,899	$ 13,736,261	$ (14,268,041)	$ 24,956,119	$ 1,084,237	$ 23,871,882

	2006					
	Beginning balance	Additions	Deletions	Ending balance	Amounts due within one year	Long-term portion
2000 revenue bonds payable	$ 7,520,000	$ -	$ (215,000)	$ 7,305,000	$ 230,000	$ 7,075,000
2001 revenue bonds payable	5,715,000	-	(110,000)	5,605,000	120,000	5,485,000
2003 revenue bonds payable	11,465,000	-	(125,000)	11,340,000	125,000	11,215,000
Capital leases	1,409,749	500,299	(672,149)	1,237,899	528,851	709,048
	$ 26,109,749	$ 500,299	$ (1,122,149)	$ 25,487,899	$ 1,003,851	$ 24,484,048

NOTE I - LONG-TERM DEBT - Continued

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

	Revenue bonds payable		Capital leases	
	Principal	Interest	Principal	Interest
Year ending December 31				
2008	$ 565,000	$ 1,017,663	$ 553,704	$ 37,091
2009	580,000	995,714	350,019	37,541
2010	605,000	969,750	276,741	24,878
2011	625,000	942,601	228,042	13,576
2012	645,000	914,500	69,082	4,415
2013-2017	3,625,000	4,124,111	-	-
2018-2022	4,420,000	3,223,660	-	-
2023-2027	5,405,000	2,065,660	-	-
2028-2032	6,385,000	916,110	-	-
2033	1,330,000	46,284	-	-
	$ 24,185,000	$ 15,216,053	$ 1,477,588	$ 117,501

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

	2007	2006
Equipment	$ 3,430,097	$ 2,550,291
Less accumulated amortization	1,339,015	871,483
	$ 2,091,082	$ 1,678,808

NOTE J - OPERATING LEASES

The District leases various facility spaces and equipment under operating leases expiring through 2012. Future five-year minimum lease payments under these noncancelable leases at December 31, 2007 are:

2008	$ 955,189
2009	541,409
2010	391,519
2011	181,132
2012	167,050
Future minimum lease payments	$ 2,236,299

Rental expense for all operating leases at December 31, 2007 and 2006 was $1,046,168 and $690,999, respectively.

NOTE K - MEDICAL MALPRACTICE CLAIMS

The District pays fixed premiums for annual medical malpractice insurance coverage under a claims-made policy. Under such policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. The District is not aware of any unasserted claims, unreported incidents or claims outstanding which are expected to exceed malpractice insurance coverage limits as of December 31, 2007. Further, the District is subject to the provisions of the Colorado Government Immunity Act which provides a limitation on the liability of the District.

NOTE L - THE ASPEN VALLEY MEDICAL FOUNDATION, LIMITED

The Aspen Valley Medical Foundation, Limited (the Foundation) is an independent non-profit corporation incorporated in 1974. The Foundation's primary objective is the betterment of health care in the Roaring Fork Valley of Colorado. The Foundation's office is located in the Hospital. The District receives contributions from the Foundation for operations and capital-related items. For the years ended December 31, 2007 and 2006, the District received contributions of $893,990 and $1,195,496, respectively, from the Foundation and as of December 31, 2007 and 2006, pledge receivable amounts are $1,686,186 and $1,087,329, respectively.

NOTE M - PENSION PLANS

The District has a voluntary tax deferred annuity plan in which all employees may participate. For plan participants who have earned 1,000 qualifying hours and one year of service, the District is required to make a matching contribution in an amount that is equal to 50% of a participant's contribution; however, the matching contribution made by the District cannot exceed 2.5% of the participant's salary. Contributions by the District are funded annually. Contributions from the District for the years ended December 31, 2007 and 2006 were $344,922 and $217,203 and contributions from employees were $1,329,905 and $1,201,347, respectively.

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.

NOTE M - PENSION PLANS - Continued

Annual Pension Cost and Net Pension Asset (Obligation)

The District's annual pension cost and net pension asset (obligation) to the Plan for the years ended December 31, 2007 and 2006 was as follows:

	2007	2006
Annual required contribution	$ 492,369	$ 887,556
Interest on net pension obligation	(17,367)	(28,048)
Adjustment to annual required contribution	31,860	50,681
Annual pension cost	506,862	910,189
Contributions made	(856,036)	(967,707)
Decrease in net pension obligation	(349,174)	(57,518)
Net pension asset (obligation) at beginning of year	20,886	(36,632)
Net pension asset at end of year	$ 370,060	$ 20,886

The annual required contribution for the years ended December 31, 2007 and 2006 was determined as part of the June 1, 2007 and the June 1, 2006 actuarial valuation using the unit credit cost method. The actuarial assumptions for the years ended December 31 are as follows:

	2007	2006
Long-term investment rate of return (net of administrative expenses)	7.50%	7.50%
Projected salary increases in the first year	13.50%	13.50%
Projected salary increases after ten years	5.50%	5.50%
Inflation component per year	3.00%	3.00%

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over future years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007 and 2006 is ten years.

Three-year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset (Obligation)
2005	$ 802,522	93%	$ (36,632)
2006	$ 910,189	106%	$ 20,886
2007	$ 506,862	169%	$ 370,060

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 N - CONTINGENCIES

The District is involved in lawsuits as defendant and certain events have occurred relative to third-party billings during the normal course of business. In the opinion of management, based upon advice of counsel, the ultimate outcome of these suits and events should not have a material impact upon the District's financial statements.

SUPPLEMENTARY INFORMATION

Aspen Valley Hospital District

SCHEDULE OF FUNDING PROGRESS -
CASH BALANCE RETIREMENT PLAN

Years ended December 31, 2007 and 2006

Actuarial valuation date	Actuarial value of assets (a)	Actuarial Accrued Liability (AAL) - Entry age (b)	Unfunded AAL (UAAL) (a-b)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (a-b/c)
6/1/00	$ 5,730,282	$ 4,475,200	$ 1,255,082	128%	$ 10,676,559	12%
6/1/01	$ 5,311,501	$ 5,159,401	$ 152,100	103%	$ 13,171,042	1%
6/1/02	$ 5,505,440	$ 6,101,743	$ (596,303)	90%	$ 14,400,476	-4%
6/1/03	$ 5,907,744	$ 6,908,500	$(1,000,756)	86%	$ 16,037,942	-6%
6/1/04	$ 7,310,833	$ 8,040,139	$ (729,306)	91%	$ 15,046,364	-5%
6/1/05	$ 7,778,060	$ 8,439,829	$ (661,769)	92%	$ 12,717,916	-5%
6/1/06	$ 8,834,727	$ 9,692,585	$ (857,858)	91%	$ 12,777,017	-7%
6/1/07	$ 10,198,381	$10,220,086	$ (21,705)	100%	$ 14,584,176	0%

Aspen Valley Hospital District

SCHEDULE OF EMPLOYER CONTRIBUTIONS -
CASH BALANCE RETIREMENT PLAN

Years ended December 31, 2007 and 2006

Fiscal year	Annual required contribution (ARC)	Percentage of ARC contributed
2000	$387,018	78%
2001	$703,886	100%
2002	$851,826	100%
2003	$999,216	100%
2004	$914,386	105%
2005	$778,430	96%
2006	$887,556	109%
2007	$492,369	173%

Aspen Valley Hospital District

STATEMENT OF BUDGETED AND ACTUAL REVENUES AND EXPENSES

Year ended December 31, 2007

	Budgeted amount Original	Actual	Favorable (unfavorable) variance
Operating revenues			
Net patient service revenue	$ 48,751,412	$ 52,386,773	$ 3,635,361
Other revenues	1,681,640	1,662,043	(19,597)
	50,433,052	54,048,816	3,615,764
Expenses			
Operating expenses	47,817,003	48,023,293	206,290
Operating profit	2,616,049	6,025,523	3,409,474
Nonoperating revenues (expenses)			
Ad valorem taxes	3,122,927	3,036,555	(86,372)
Investment income	902,458	1,604,227	701,769
Interest expense	(1,377,847)	(1,269,259)	108,588
Noncapital contributions	55,000	117,512	62,512
Gain on investment in joint venture	650,000	144,326	(505,674)
Loss on disposal of capital assets	-	(155,319)	(155,319)
	3,352,538	3,478,042	125,504
Income before capital contributions, member distributions, net, equity contribution, minority interests and change in reporting presentation	5,968,587	9,503,565	3,534,978
Capital contributions	500,000	884,298	384,298
Member distributions, net	-	561,812	561,812
Equity contribution	-	(400,000)	(400,000)
Miniority interests	-	-	-
Change in reporting presentation	-	(550,633)	(550,633)
Change in net assets	$ 6,468,587	$ 9,999,042	$ 3,530,455

Note 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 2007.

Component units operating results are not reflected in the actual column above. The change in net assets for the component units was $418,721 in 2007.

Aspen Valley Hospital District

COMBINING BALANCE SHEET - COMPONENT UNITS

December 31, 2007

ASSETS

	Midvalley Ambulatory Surgery Center, LLC	Snowmass Clinic Associates, LLP	Total
CURRENT ASSETS			
Cash and cash equivalents	$ 72,884	$ 34,440	$ 107,324
Patient accounts receivable, net	793,807	24,203	818,010
Other receivables	-	8,199	8,199
Inventories	143,454	24,098	167,552
Prepaid expenses	-	258,557	258,557
Total current assets	1,010,145	349,497	1,359,642
CAPITAL ASSETS, NET	247,237	87,855	335,092
OTHER ASSETS (NET)	-	193,800	193,800
Total assets	$ 1,257,382	$ 631,152	$ 1,888,534

LIABILITIES AND UNRESTRICTED NET ASSETS

	Midvalley Ambulatory Surgery Center, LLC	Snowmass Clinic Associates, LLP	Total
CURRENT LIABILITIES			
Accounts payable	$ 25,969	$ 16,647	$ 42,616
Other accrued liabilities	131,994	103,692	235,686
Total current liabilities	157,963	120,339	278,302
MINORITY INTERESTS	538,715	102,163	640,878
UNRESTRICTED NET ASSETS	560,704	408,650	969,354
Total liabilities and unrestricted net assets	$ 1,257,382	$ 631,152	$ 1,888,534

Aspen Valley Hospital District

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS - COMPONENT UNITS

Year ended December 31, 2007

	Midvalley Ambulatory Surgery Center, LLC	Snowmass Clinic Associates, LLP	Total
Operating revenues			
Net patient service revenue	$ 2,977,085	$ 144,154	$ 3,121,239
Operating expenses			
Salaries and wages	484,207	59,470	543,677
Supplies and other	1,153,510	50,935	1,204,445
Depreciation and amortization	131,876	24,224	156,100
Total operating expenses	1,769,593	134,629	1,904,222
Operating income	1,207,492	9,525	1,217,017
Nonoperating revenues (expenses)			
Investment income	21,125	1,288	22,413
Income before member distributions, net, equity contribution and minority interests	1,228,617	10,813	1,239,430
Member distributions, net	(1,247,975)	-	(1,247,975)
Equity contribution	-	500,000	500,000
Minority interests	29,429	(102,163)	(72,734)
Change in net assets	10,071	408,650	418,721
Net assets at beginning of year	550,633	-	550,633
Net assets at end of year	$ 560,704	$ 408,650	$ 969,354

Aspen Valley Hospital District

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS

Year ended December 31, 2007

	Midvalley Ambulatory Surgery Center, LLC	Snowmass Clinic Associates, LLP	Total
Cash flows from operating activities			
Cash received from patients and third-party payors	$ 3,062,945	$ 119,951	$ 3,182,896
Cash received from (paid to) others	-	(208,611)	(208,611)
Cash paid to suppliers	(1,192,735)	(271,125)	(1,463,860)
Cash paid to employees	(484,207)	(59,470)	(543,677)
Net cash provided by operating activities	1,386,003	(419,255)	966,748
Cash flows from capital and related financing activities			
Purchases of capital assets	(123,326)	(47,593)	(170,919)
Cash flows from investing activities			
Investment income	21,125	1,288	22,413
Member distributions, net	(1,247,975)	-	(1,247,975)
Equity contribution	-	500,000	500,000
Net cash provided by investing activities	(1,226,850)	501,288	(725,562)
Net increase in cash and cash equivalents	35,827	34,440	70,267
Cash and cash equivalents at beginning of year	37,057	-	37,057
Cash and cash equivalents at end of year	$ 72,884	$ 34,440	$ 107,324
Reconciliation of operating income to net cash provided by operating activities			
Operating income	$ 1,207,492	$ 9,525	$ 1,217,017
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	131,876	24,224	156,100
Change in assets and liabilities			
Accounts receivable	85,860	(24,203)	61,657
Other receivables	-	(8,199)	(8,199)
Inventories	(24,177)	(24,098)	(48,275)
Prepaid expenses	-	(273,140)	(273,140)
Other assets	-	(200,412)	(200,412)
Accounts payable	(628)	16,647	16,019
Other accrued liabilities	(14,420)	60,401	45,981
Net cash provided by operating activities	$ 1,386,003	$ (419,255)	$ 966,748