



FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS

ASPEN VALLEY HOSPITAL DISTRICT

December 31, 2008 and 2007

Contents

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
BALANCE SHEETS	13
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	14
STATEMENTS OF CASH FLOWS	15
STATEMENTS OF FIDUCIARY NET ASSETS	17
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS	18
NOTES TO FINANCIAL STATEMENTS	19
SUPPLEMENTARY INFORMATION	
SCHEDULE OF FUNDING PROGRESS - CASH BALANCE RETIREMENT PLAN	35
SCHEDULE OF EMPLOYER CONTRIBUTIONS - CASH BALANCE RETIREMENT PLAN	36
STATEMENT OF BUDGETED AND ACTUAL REVENUES AND EXPENSES	37
COMBINING BALANCE SHEET - COMPONENT UNITS	38
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - COMPONENT UNITS	39
COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS	40



Audit • Tax • Advisory

Report of Independent Certified Public Accountants

Grant Thornton LLP
8300 Thorn Drive, Suite 300
Wichita, KS 67226-2708

T 316.265.3231
F 316.383.3274
www.GrantThornton.com

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, 2008 and 2007, 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, 2008 and December 31, 2007 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 35 and 36 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.

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 31, 2009

Aspen Valley Hospital District

MANAGEMENT'S DISCUSSION & ANALYSIS

December 31, 2008 and 2007

As management of Aspen Valley Hospital District (Hospital), 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, 2008 and 2007.

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 Footnote A1 in the Notes to the Financial Statements for a complete explanation of these arrangements. For purposes of this discussion and analysis, the financial results of the joint ventures are considered immaterial to the total 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 Sheets:** provides information about the Hospital's assets and liabilities and reflect the Hospital's financial position as of December 31, 2008 and 2007.
2. **Statements 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, 2008 and 2007.
3. **Statements of Cash Flows:** outlines the cash inflows and outflows related to the activity of providing healthcare services for the year ended December 31, 2008 and 2007.
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 SHEETS

Financial Analysis

Aspen Valley Hospital's Total Assets at the end of 2008 were \$84,462,148 compared to \$81,618,470 for 2007 and \$69,777,855 at the end of 2006. The \$2,843,678 increase from 2007 Total Assets is attributable to cash generated from operations and an increase in Capital Assets. The \$11,840,615 and \$8,486,652 increase in Total Assets for 2007 and 2006 respectively, were also driven by increases in operating cash flows and by increases in Property, Plant and Equipment.

Aspen Valley Hospital District

MANAGEMENT'S DISCUSSION & ANALYSIS - CONTINUED

December 31, 2008 and 2007

At December 31, 2008, Assets consisted primarily of Cash and Cash Equivalents of \$34,381,759, Net Patient Accounts Receivable of \$6,058,285, Investments of \$1,419,420, Restricted Assets Under Bond Agreement of \$2,382,932 and Net Capital Assets of \$34,008,046. At December 31, 2007, Assets consisted primarily of Cash and Cash Equivalents of \$31,397,091, Net Patient Accounts Receivable of \$7,002,567, Investments of \$1,393,010, Restricted Assets Under Bond Agreement of \$4,608,354, and Net Capital Assets of \$31,241,535.

The continued decrease in Net Patient Accounts Receivable and the increase in Cash during 2008 and 2007 resulted from the reliable revenue cycle management of Computer Sciences Corporation (formerly First Consulting Group) and MedAssist, two outside billing specialists. An emphasis on timely communication with third-party payors and effective claim management were instrumental for growth in Cash for 2008 and 2007. The same factors were responsible for the increase in Cash and decrease in Net Patient Accounts Receivable in 2006. The noted \$2,225,422 decrease in Restricted Assets Under Bond Agreement is due to the completion of Phase I of Aspen Valley Hospital's Master Facilities Plan; The Aspen Birthing Center. The Aspen Birthing Center opened to the public in early November 2008, highlighting state of the art labor and delivery suites with an equally advanced nursery.

Comparable Asset balances at December 31, 2006 were as follows: 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.

Aspen Valley Hospital's Total Liabilities at December 31, 2008 were \$31,658,309; noting Accounts Payable of \$1,908,941, Accrued Liabilities of \$2,335,217, Patient and Insurance Refunds of \$249,712, Long-Term Revenue Bonds Payable of \$22,403,621, Long-Term Capital Lease Obligations of \$1,580,508 and a new liability category, Long-Term Notes Payable of \$592,045. At December 31, 2007, Total Liabilities 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, Long-Term Revenue Bonds Payable of \$22,947,998, and Long-Term Capital Lease Obligations of \$923,884.

The \$2,658,851 decrease in Total Liabilities for 2008 was attributable to the reduction of Accounts Payable, with payments of capital expenditures for the Aspen Birthing Center outstanding at the end of 2007, Long-Term Debt disbursements, the addition of Capital Lease Obligations, and the addition of a Note Payable. The Notes Payable line item came about with the purchase of an employee-housing unit in Basalt, Colorado's Holland Hills Subdivision, in October 2008. The purchase of the employee-housing unit emphasized the Hospital's Board of Directors, in concert with the Hospital's Administrations' unwavering commitment to implementing strategic tactics relating to employee recruitment and retention. In 2007, the \$1,841,573 increase in Total Liabilities was attributable to additional Capital Lease Obligations being incurred, Long-Term Debt payments and improved patient refunding processes, offset by an increase in Accounts Payable due to a number of capital expenditures relating to Phase I of Aspen Valley Hospital's Master Facilities Plan.

Comparable Total Liabilities balances at December 31, 2006 were \$32,475,587 consisting of Accounts Payable of \$2,539,543, Accrued Liabilities of \$2,618,415, Patient and Insurance Refunds of \$871,057 and Long-Term Revenue Bonds Payable of \$23,775,000. The \$806,462 reduction in Total Liabilities in 2006 was attributable to Long-Term Debt payments and improved patient refunding processes.

Aspen Valley Hospital District

MANAGEMENT'S DISCUSSION & ANALYSIS - CONTINUED

December 31, 2008 and 2007

Aspen Valley Hospital reported Unrestricted Net Assets of \$40,919,514 in 2008, \$34,710,517 in 2007, and \$28,275,208 for 2006. The increase in Total Net Assets of \$5,502,529 from 2007 and \$9,999,042 from 2006 represent net income reported by the Hospital. Net Assets represent the cumulative changes in operations gains and losses since the inception of the entity.

2. STATEMENTS 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 Revenue and Outpatient Service Revenue.

Net Patient Service Revenues increased \$1,093,170 or 2.1% in 2008 as compared to \$4,446,766 or 9.3% in 2007 and \$5,084,925 or 11.9% in 2006. Net Patient Service Revenue for 2008 in total was \$53,479,943 compared to \$52,386,773 in 2007 and \$47,920,007 in 2006. The slower rate of growth in Net Patient Service Revenue in 2008 is directly attributable to the downturn in economic conditions for the country.

The Hospital's Outpatient Service Revenues continue to exceed the Inpatient Service Revenues, with 67% of the Hospital's 2008 Patient Service Revenue generated by Outpatient Services compared to 65% for 2007, and 63% in 2006. The departments contributing most to Outpatient Revenues during both 2008 and 2007 were Outpatient Surgeries, Emergency Room, Laboratory, and Diagnostic Imaging.

The largest portion of the Hospital's Patient Service Revenues were derived from Commercial health plans, 67% during 2008, 65% during 2007, and 66% during 2006. In addition, the Hospital derived approximately 22% of Gross Revenues from Medicare in 2008 and 2007 compared to 23% in 2006. 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 payors for 2007.

Other Operating Revenues consist of services provided by the Hospital not directly related to patient care. In 2008, Other Operating Revenues had an increase of \$58,270 compared to a decrease of \$133,648 from 2007, and an increase of \$140,626 for 2006. The increase for 2008 was attributable to increased Cafeteria sales and a modest rent increase at Whitcomb Terrace, the assisted living facility operated by the Hospital. The decrease from 2006 to 2007 was primarily due to the restructure of operating contracts that included a separate billing fee in 2006, whereas the fees were eliminated in 2007.

Aspen Valley Hospital District

MANAGEMENT'S DISCUSSION & ANALYSIS - CONTINUED

December 31, 2008 and 2007

Non-Operating Revenues and Expenses are comprised of Ad Valorem Taxes, Investment Income, Interest Expense, Contributions for Operations, Gain or Loss on Investment in Joint Venture and Gain or Loss on Disposal of Equipment. Non-Operating Revenues and Expenses for 2008 were \$3,129,948 compared to \$3,478,042 for 2007 and \$3,470,249 for 2006. The \$348,094 decrease in 2008 is primarily due to \$630,490 of additional Ad Valorem Taxes received for rebased property values in Pitkin County and a reduction in Investment Income of \$866,186 due to reduced rates of interest. The reported change from 2006 to 2007 shows a modest increase of \$7,793 for Non-Operating Revenues and Expenses due to the new change in reporting presentation for Component Units.

The marked increase in Non-Operating Revenues and Expenses for 2006 is due to the increase in investment income derived from the increase in Cash and the increase in Aspen Valley Hospital's share of revenue provided from Component Units.

Expenses

Operating Expenses increased \$4,869,213 in 2008. Instrumental to this increase was Salaries and Wages contributing a \$1,638,738 increase over 2007. The Hospital experienced growth in Full-Time Equivalents needed to maintain current service line demands. With this growth, key executive and managerial positions were in a state of transition. This caused \$636,447 of additional expense in the Contract Labor line to cover unexpected usage of agency personnel in clinical departments as well as in key administrative positions. The Supplies and Other section of Operating Expenses contributed \$1,704,587 towards the increase as well. Within this line item, Patient Care Supplies used in the direct care of patients had a modest increase of \$195,792; Maintenance & Utilities had a \$443,641 contribution to the 2008 increase, as well as Employee Benefits with \$137,030 and Miscellaneous Expense with \$507,956. Within the Miscellaneous Expense change, the Hospital entered into an operating lease to finance state of the art equipment and engaged the services of off-site storage facilities to store digital radiological images.

In 2007, Operating Expenses increased from 2006 by \$2,810,353. Again, in 2007, Salaries and Wages posted the largest increase of \$1,931,737, which was related to the growth in Full-Time Equivalents needed to maintain current service line demands and to explore additional community health care needs. Contract Labor contributed \$572,233, Supplies and Other contributing \$590,832, which includes an increase of \$244,181 in Patient Care Supplies from 2006.

Provision For Doubtful Accounts

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

The primary collection risks are 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 payor collection efforts.

Significant changes in payor 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.

Aspen Valley Hospital District

MANAGEMENT'S DISCUSSION & ANALYSIS - CONTINUED

December 31, 2008 and 2007

In 2008, the Hospital reported Provision for Doubtful Accounts of \$2,938,033 compared to \$283,794 for 2007 and \$3,304,235 for 2006. The marked fluctuations in the Provision for Doubtful Accounts for 2008, 2007 and 2006 are directly related to Computer Sciences Corporation (formerly First Consulting Group) and MedAssist's analysis, recommendations for modification, and implementation of improved billing and collection processes. The favorable Provision for Doubtful Accounts in 2007 is attributable to a decrease in the write-off of aged Patient Accounts Receivables due to higher collections than expected.

Accounts written-off as Charity and Indigent Care are excluded from Net Patient Service Revenue. Charity and Indigent Care write-offs were \$2,624,014 or 3.7% of gross patient service revenue for 2008, compared to \$2,160,243 or 3.1% of gross patient service revenue for 2007, \$2,035,186 or 3% of gross patient service revenue for 2006.

3. STATEMENTS OF CASH FLOWS

Liquidity and Capital Resources

Aspen Valley 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, 2008, 2007 and 2006:

Cash Flows	2008	2007	2006
Operating Act.	\$5,986,815	\$8,811,624	\$14,322,642
Non-Capital Financing Act.	3,768,935	3,154,067	2,995,983
Capital & Related Financing Act.	(9,786,832)	(8,055,399)	(5,558,244)
Investing Act.	790,328	373,029	1,829,556
Net Increase/(Decrease) in Cash	\$ 759,246	\$4,283,321	\$13,589,937

The Hospital's cash flow from operations decreased \$2,824,809 in 2008 from a mixture of increased payments from patients and third-party payors of \$1,010,175, an increase in cash received from others of \$1,887,174, increased payments to suppliers of \$4,073,626 (a reduction in cash), and an increase in payments to employees of \$1,648,532 (also a reduction in cash). In 2007, cash flow from operations decreased \$5,511,018 from 2006 as a result of decreased cash received from patients and third-party payors of \$855,249, decrease 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 \$614,868 and \$158,084 increase of Non-Capital Financing for 2008 and 2007, respectively, were attributable to the increase in assessed property values in Pitkin County of \$630,490 and \$187,290 in 2007 and 2006 (respectively), and a \$15,622 and \$29,206 (respectively) reduction in Non-Capital Contributions made to the Hospital. The 2007 Non-Capital Contributions reduction was in accordance with mutually agreed upon operational changes by the Hospital and the Aspen Valley Medical Foundation.

Aspen Valley Hospital District

MANAGEMENT'S DISCUSSION & ANALYSIS - CONTINUED

December 31, 2008 and 2007

Capital & Related Financing increased \$1,731,433 from 2007, primarily due to the decrease in sale of assets and capital contributions. In 2007, the Hospital purchased assets with internal capital and then entered into a leaseback agreement, which replenished the cash outlay, thus considered sale of assets. The decrease in capital contributions was due to lower than expected contributions made by the Aspen Valley Medical Foundation. In 2007, this same category saw an increase of \$2,497,155 from 2006 with the largest part of the increase being used for the initial construction of the Aspen Birthing Center.

Investing Activities posted a \$417,299 increase over 2007 due to less investment income of \$866,186 received from interest bearing accounts, increased member distributions from Component Units of \$159,632 and the influx of \$642,747 of equity into a new Component Unit for 2008; Midvalley Imaging Center, LLC. In addition, the leaseback agreement mentioned above, caused an increase of \$1,366,600 in the purchase of investment line of the cash flow statement in 2007.

The Hospital's cash flows from operations increased during 2006 because of marked reductions in Accounts Receivable attributable to more effective collection processes from third-party payors and patients, and from improved operating results.

Outstanding Debt Securities

The Hospital did not issue additional debt in 2008 or 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, Aspen Valley 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 2008, 2007 and 2006.

BUDGETARY HIGHLIGHTS

Aspen Valley 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 2008 and 2007 budgets during the last quarter of the 2007 and 2006 calendar years, respectively. There were no amendments made to the original budgets presented to the State of Colorado for the calendar years 2008 and 2007.

Aspen Valley Hospital District

MANAGEMENT'S DISCUSSION & ANALYSIS - CONTINUED

December 31, 2008 and 2007

During 2008, Net Patient Service Revenue was \$452,704 (0.8%) lower than budget, while Operating Expenses were \$1,018,515 (1.9%) lower than budgeted dollars due to extensive hospital-wide cost reductions. For 2007 calendar year, Net Patient Service Revenue was \$3,635,361 (7.5%) higher than budget, while Operating Expenses were \$206,290 (0.4%) higher than budgeted expenses. For the 2006 calendar year, Net Patient Service Revenues were \$5,718,233 or 13.5% higher than budget while Operating Expenses were 4.0% higher than budgeted expenses by \$1,720,283.

Please see Attachment A for the Statement of Budget and Actual Revenues and Expenses for the year ended December 31, 2008.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

During 2008, Aspen Valley Hospital continued to outsource its Billing Office to Computer Sciences Corporation and MedAssist. This arrangement has worked extraordinarily well, as evidenced by the marked increase in Cash and the marked decrease in Accounts Receivable during 2008 and 2007. It is the Hospital's intention to continue this outsourcing arrangement indefinitely.

Aspen Valley Hospital considered the above decisions, its volumes history and the Colorado Price Index when setting the revenue estimates for 2008 and 2007 budgets. Over the last year, Aspen Valley Hospital District has experienced an increase in outpatient volumes in addition to an increase in inpatient acuity.

In constructing the Hospital's 2009 budget, management took into account the effects of the local and national economy. In addition, Hospital management developed contingency plans that can be implemented as conditions warrant. The 2009 budget, as submitted, anticipates volume declines of approximately 10% due to unfavorable economic conditions.

Major expense reductions in the budget produced an anticipated net gain of \$3.4 million for 2009.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This management discussion and analysis report is designed to provide interested parties with a general overview of Aspen Valley Hospital District's financial activity for the 2008 and 2007 calendar years and to demonstrate the Hospital's accountability for the money it received for providing healthcare services to members of this community and others. 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, 2008

	Budgeted Amount	Actual	Favorable (Unfavorable) Variance
Patient Service Revenues			
Ambulance	\$ 757,215	\$ 1,127,008	\$ 369,793
Cardiac Rehabilitation	140,649	159,934	19,285
Cardiology Clinic	2,285,722	2,206,544	(79,178)
Cardiopulmonary	2,528,181	2,306,442	(221,739)
Diabetes Education	29,109	26,344	(2,765)
Diagnostic Imaging	12,729,354	11,853,916	(875,438)
Emergency Room	9,483,767	9,468,919	(14,848)
Endoscopy	654,851	661,445	6,594
Intensive Care Unit	1,240,130	1,039,234	(200,896)
Laboratory	7,568,874	7,763,580	194,706
Mental Health	-	11,078	11,078
Nutritional Services	-	7,192	7,192
Obstetrics	2,418,858	2,153,212	(265,646)
Outpatient Clinic	458,272	367,899	(90,373)
Pain Management Clinic	504,856	493,204	(11,652)
Patient Care Unit	8,254,068	4,367,122	(3,886,946)
Pharmacy	5,350,850	4,754,613	(596,237)
Physical Therapy	3,955,416	3,166,941	(788,475)
Recovery	1,145,308	1,173,947	28,639
Same Day Surgery	537,855	552,323	14,468
Surgery	14,372,439	17,666,827	3,294,388
Total Patient Service Revenues	74,415,774	71,327,726	(3,088,048)
Revenue Deductions	(20,483,127)	(17,847,783)	2,635,344
Net Patient Revenues	53,932,647	53,479,943	(452,704)
Other Revenues	1,614,253	1,720,313	106,060
Total Operating Revenues	55,546,900	55,200,256	(346,644)
Operating Expenses			
Admissions	614,232	747,532	(133,300)
After Hours Care Clinic	-	104,126	(104,126)
Ambulance	1,052,529	1,210,986	(158,457)
Cardiac Rehabilitation	216,377	200,684	15,693
Cardiology Clinic	566,876	680,975	(114,099)

Aspen Valley Hospital District

STATEMENT OF BUDGET AND ACTUAL REVENUES AND EXPENSES - continued

Year ended December 31, 2008

	Budgeted Amount	Actual	Favorable (Unfavorable) Variance
Cardiopulmonary	\$ 1,271,414	\$ 1,048,636	\$ 222,778
Central Sterilizing	303,721	324,335	(20,614)
Community Relations	805,245	655,214	150,031
Diabetes Education	135,414	114,054	21,360
Diagnostic Imaging	4,330,707	4,071,136	259,571
Emergency Room	4,267,766	4,835,679	(567,913)
Employee Health	149,664	146,805	2,859
Employee Housing	797,798	768,925	28,873
Endoscopy	138,030	188,976	(50,946)
Engineering	2,564,510	2,368,607	195,903
Finance	818,518	624,309	194,209
General & Administrative	8,665,189	8,682,568	(17,379)
Health Information Systems	814,529	899,032	(84,503)
Housekeeping & Laundry	766,543	783,273	(16,730)
Human Resources	1,036,455	807,837	228,618
Information Technology	2,658,015	2,574,682	83,333
Intensive Care Unit	692,406	732,885	(40,479)
Laboratory	2,870,428	2,830,079	40,349
Language Resources	71,406	64,871	6,535
Legal & Compliance	368,413	392,761	(24,348)
Materials Management	433,279	407,771	25,508
Medical Staff	130,782	44,782	86,000
Mental Health	-	596	(596)
Nursing Education	229,915	198,269	31,646
Nutritional Services	974,224	920,692	53,532
Obstetrics	1,516,365	1,551,798	(35,433)
Outpatient Clinic	332,378	476,838	(144,460)
Pain Management Clinic	72,849	81,995	(9,146)
Patient Care Unit	1,622,084	1,580,366	41,718
Patient Education	46,022	43,827	2,195
Patient Financial Services	2,832,053	2,294,675	537,378
Pharmacy	2,788,294	2,387,014	401,280
Physical Therapy	1,268,337	1,107,144	161,193
QA/Risk Management	352,984	319,436	33,548
Recovery	355,828	199,436	156,392
Same Day Surgery	374,498	404,649	(30,151)

Aspen Valley Hospital District

STATEMENT OF BUDGET AND ACTUAL REVENUES AND EXPENSES - continued

Year ended December 31, 2008

	Budgeted Amount	Actual	Favorable (Unfavorable) Variance
Surgery	\$ 3,597,726	\$ 4,074,953	\$ (477,227)
Trauma Services	125,059	113,199	11,860
Utilization Review & Discharge	138,850	120,764	18,086
Whitcomb Terrace	743,309	705,335	37,974
Total Operating Expenses	53,911,021	52,892,506	1,018,515
Operating Income	1,635,879	2,307,750	671,871
Nonoperating Revenues (Expenses)			
Ad Valorem Taxes	3,823,920	3,667,045	(156,875)
Investment Income	1,200,000	738,041	(461,959)
Interest Expense	(1,259,032)	(1,178,300)	80,732
Contributions for Operations	55,000	101,890	46,890
Gain on Investment in Equity Investee	297,037	66,256	(230,781)
Other	-	(264,984)	(264,984)
Total Nonoperating Revenues (Expenses)	4,116,925	3,129,948	(986,977)
Income Before Capital Contributions, Member Distributions, Net, and Equity Contribution	5,752,804	5,437,698	(315,106)
Capital Contributions	500,000	70,996	(429,004)
Member Distributions, net	-	636,582	636,582
Equity Contribution	-	(642,747)	(642,747)
Change in Net Assets	\$ 6,252,804	\$ 5,502,529	\$ (750,275)

FINANCIAL STATEMENTS

Aspen Valley Hospital District

BALANCE SHEETS

December 31,

ASSETS

	2008		2007	
	Aspen Valley Hospital	Component units	Aspen Valley Hospital	Component units
CURRENT ASSETS				
Cash and cash equivalents	\$34,381,759	\$ 423,825	\$ 31,397,091	\$ 107,324
Patient accounts receivable, net	6,058,285	711,126	7,002,567	818,010
Contributions receivable	523,274	-	479,390	-
Other receivables	1,396,013	17,458	1,234,751	8,199
Inventories	1,609,476	142,024	1,459,425	167,552
Investments	1,419,420	-	1,393,010	-
Prepaid expenses	581,366	170,473	362,824	258,557
	45,969,593	1,464,906	43,329,058	1,359,642
 RESTRICTED ASSETS - WHOSE USE IS LIMITED UNDER BOND AGREEMENT				
	2,382,932	-	4,608,354	-
 CONTRIBUTIONS RECEIVABLE				
	749,280	-	1,206,796	-
 PHYSICIAN GUARANTEE RECEIVABLE				
	694,681	-	559,250	-
 INVESTMENT IN JOINT VENTURE				
	125,720	-	144,326	-
 CAPITAL ASSETS				
Land	267,057	-	267,057	-
Depreciable capital assets, net of accumulated depreciation	33,740,989	1,466,549	30,974,478	335,092
	34,008,046	1,466,549	31,241,535	335,092
 OTHER ASSETS (NET)				
	531,896	152,067	529,151	193,800
	531,896	152,067	529,151	193,800
Total assets	\$84,462,148	\$3,083,522	\$81,059,220	\$1,888,534

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	2008		2007	
	Aspen Valley Hospital	Component units	Aspen Valley Hospital	Component units
CURRENT LIABILITIES				
Current maturities of long-term debt	\$ 1,212,066	\$ -	\$ 1,084,237	\$ -
Accounts payable	1,908,941	81,922	5,151,850	42,616
Accrued salaries, benefits and payroll taxes	1,202,485	-	1,346,223	-
Other accrued liabilities	1,132,732	145,680	1,359,768	235,686
Refunds payable	249,712	-	340,021	-
Unclaimed refunds payable	1,024,130	-	972,470	-
Due to Medicare	352,069	-	190,709	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	7,082,135	227,602	10,445,278	278,302
LONG-TERM DEBT				
Revenue bonds payable	22,403,621	-	22,947,998	-
Capital lease obligations	1,580,508	-	923,884	-
Note payable	592,045	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	24,576,174	-	23,871,882	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	31,658,309	227,602	34,317,160	278,302
CONTINGENCIES AND COMMITMENTS				
MINORITY INTERESTS				
	-	1,231,391	-	640,878
NET ASSETS				
Invested in capital assets, net of related debt	8,219,806	-	8,395,953	-
Restricted				
For debt service	2,391,965	-	2,508,654	-
Expendable for capital acquisitions	1,226,054	-	1,638,046	-
Expendable for specific operating activities	46,500	-	48,140	-
Unrestricted	40,919,514	1,624,529	34,710,517	969,354
	<hr/>	<hr/>	<hr/>	<hr/>
Total net assets	52,803,839	1,624,529	47,301,310	969,354
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and net assets	<u>\$84,462,148</u>	<u>\$3,083,522</u>	<u>\$81,618,470</u>	<u>\$1,888,534</u>

Aspen Valley Hospital District

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year ended December 31,

	2008		2007	
	Aspen Valley Hospital	Component units	Aspen Valley Hospital	Component units
Operating revenues				
Net patient service revenue	\$ 53,479,943	\$ 3,714,715	\$ 52,386,773	\$ 3,121,239
Other revenues	1,720,313	-	1,662,043	-
Total operating revenues	55,200,256	3,714,715	54,048,816	3,121,239
Operating expenses				
Salaries and wages	20,686,854	904,696	19,048,116	543,677
Contract labor	2,638,312	-	2,001,865	-
Supplies and other	25,457,291	1,639,410	23,752,704	1,204,445
Depreciation and amortization	4,110,049	220,966	3,220,608	156,100
Total operating expenses	52,892,506	2,765,072	48,023,293	1,904,222
Operating income	2,307,750	949,643	6,025,523	1,217,017
Nonoperating revenues (expenses)				
Ad valorem taxes	3,667,045	-	3,036,555	-
Investment income	738,041	18,557	1,604,227	22,413
Interest expense	(1,178,300)	-	(1,269,259)	-
Noncapital contributions	101,890	-	117,512	-
Gain on investment in joint venture	66,256	-	144,326	-
Loss on disposal of capital assets	(264,984)	-	(155,319)	-
Total nonoperating revenues (expenses)	3,129,948	18,557	3,478,042	22,413
Income before capital contributions, member distributions, net, equity contribution, minority interests and change in reporting presentation	5,437,698	968,200	9,503,565	1,239,430
Capital contributions	70,996	-	884,298	-
Member distributions, net	636,582	(950,000)	561,812	(1,247,975)
Equity contribution	(642,747)	1,227,488	(400,000)	500,000
Minority interests	-	(590,514)	-	(72,734)
Change in reporting presentation	-	-	(550,633)	-
Change in net assets	5,502,529	655,174	9,999,042	418,721
Net assets at beginning of year	47,301,310	969,354	37,302,268	550,633
Net assets at end of year	\$ 52,803,839	\$ 1,624,528	\$ 47,301,310	\$ 969,354

The accompanying notes are an integral part of these statements.

Aspen Valley Hospital District

STATEMENTS OF CASH FLOWS

Year ended December 31,

	2008		2007	
	Aspen Valley Hospital	Component units	Aspen Valley Hospital	Component units
Cash flows from operating activities				
Cash received from patients and third-party payors	\$54,546,936	\$3,821,599	\$53,536,761	\$3,182,896
Cash received from (paid to) others	1,766,531	(7,198)	(120,643)	(208,611)
Cash paid to suppliers	(29,496,060)	(1,533,207)	(25,422,434)	(1,463,860)
Cash paid to employees	(20,830,592)	(904,696)	(19,182,060)	(543,677)
Net cash provided by operating activities	5,986,815	1,376,498	8,811,624	966,748
Cash flows from noncapital financing activities				
Ad valorem taxes	3,667,045	-	3,036,555	-
Noncapital contributions	101,890	-	117,512	-
Net cash provided by noncapital financing activities	3,768,935	-	3,154,067	-
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	(1,336,120)	-	(2,095,940)	-
Interest payments on debt	(1,178,300)	-	(1,269,259)	-
Purchases of capital assets	(7,343,408)	(1,356,042)	(7,474,969)	(170,919)
Proceeds from the sale of capital assets	-	-	1,215,471	-
Capital contributions	70,996	-	884,298	-
Net cash used in capital and related financing activities	(9,786,832)	(1,356,042)	(8,055,399)	(170,919)
Cash flows from investing activities				
Purchases of investments, net	(26,410)	-	(1,393,010)	-
Investment income	738,041	18,557	1,604,227	22,413
Member distributions, net	721,444	(950,000)	561,812	(1,247,975)
Equity contribution	(642,747)	1,227,488	(400,000)	500,000
Net cash provided by (used in) investing activities	790,328	296,045	373,029	(725,562)
Net increase in cash and cash equivalents	759,246	316,501	4,283,321	70,267
Cash and cash equivalents at beginning of year	36,005,445	107,324	31,722,124	37,057
Cash and cash equivalents at end of year	<u>\$36,764,691</u>	<u>\$ 423,825</u>	<u>\$36,005,445</u>	<u>\$ 107,324</u>

Aspen Valley Hospital District

STATEMENTS OF CASH FLOWS - CONTINUED

Year ended December 31,

	2008		2007	
	Aspen Valley Hospital	Component units	Aspen Valley Hospital	Component units
Reconciliation of cash and cash equivalents to the balance sheets				
Cash and cash equivalents	\$34,381,759	\$ 423,825	\$31,397,091	\$ 107,324
Restricted assets - whose use is limited under bond agreement	2,382,932	-	4,608,354	-
Total cash and cash equivalents	\$36,764,691	\$ 423,825	\$36,005,445	\$ 107,324
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 2,307,750	\$ 949,643	\$ 6,025,523	\$1,217,017
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	4,110,049	220,966	3,220,608	156,100
Provision for doubtful accounts	2,938,033	-	283,794	-
Change in assets and liabilities				
Patient accounts receivable	(1,993,751)	106,884	1,192,724	61,657
Contributions receivable	413,632	-	(598,857)	-
Other receivables	(316,193)	(9,259)	(1,191,750)	(8,199)
Inventories	(150,051)	25,528	(109,184)	(48,275)
Prepaid expenses	(218,542)	88,084	79,351	(273,140)
Other assets	(51,221)	2,061	7,921	(200,412)
Accounts payable	(804,828)	39,306	140,448	16,019
Accrued salaries, benefits and payroll taxes	(143,738)	-	(133,944)	-
Other accrued liabilities	(227,036)	(46,715)	221,520	45,981
Refunds payable	(90,309)	-	(531,036)	-
Unclaimed refunds payable	51,660	-	131,091	-
Due to Medicare	161,360	-	73,415	-
Net cash provided by operating activities	\$ 5,986,815	\$1,376,498	\$ 8,811,624	\$ 966,748

Supplemental schedule of noncash capital and financing activities

The District entered into capital lease obligations for equipment of \$1,562,641 and \$879,160 in 2008 and 2007, respectively.

Capital asset additions in accounts payable and other accrued liabilities were \$188,127 and \$2,606,708 in 2008 and 2007, respectively.

The District entered into a note payable for employee housing of \$605,600 in 2008.

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,

	<u>2008</u>	<u>2007</u>
ASSETS		
Investments	<u>\$ 7,418,510</u>	<u>\$ 9,973,207</u>
NET ASSETS - held for pension benefits	<u>\$ 7,418,510</u>	<u>\$ 9,973,207</u>

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,

	<u>2008</u>	<u>2007</u>
Additions		
Contributions for employee benefits	\$ 1,148,242	\$ 804,127
Investment earnings (losses)	<u>(3,315,211)</u>	<u>110,126</u>
Net change	(2,166,969)	914,253
Deductions		
Benefits	387,728	718,184
Administrative expenses	<u>-</u>	<u>(186,777)</u>
Total deductions	<u>387,728</u>	<u>531,407</u>
Change in net assets	(2,554,697)	382,846
Net assets at beginning of the year	<u>9,973,207</u>	<u>9,590,361</u>
Net assets at end of the year	<u><u>\$ 7,418,510</u></u>	<u><u>\$ 9,973,207</u></u>

The accompanying notes are an integral part of these statements.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

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; Whitcomb Terrace, an assisted living facility; 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 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 owns a 51% ownership interest in ASC and appoints a voting majority of ASC's board members, the District can impose its will on ASC. However, ASC does not provide services to the District. As a result, ASC is considered a component unit of the District and included in the financial statements of the District using discrete presentation. ASC was reported in the 2006 financial statements of the District as a joint venture. As a result, the statements of revenues, expenses and changes in net assets for the year ended December 31, 2007 contains a change in reporting presentation equal to the District's interest in ASC as of December 31, 2006.

The Snowmass Clinic Associates, LLP (SMC) has been 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 using discrete presentation.

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

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.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

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, 2008 and 2007, 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), charity care, the allowance for doubtful accounts and provision for doubtful accounts 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. The current portion of these receivables are included in other receivables in the balance sheets. 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 sheets.

7. 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 - CONTINUED

December 31, 2008 and 2007

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 in 2007 that are restricted for capital acquisition, construction and improvement. The unspent project funds were extinguished in 2008.

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. There was no net interest costs capitalized in 2008. The District capitalized net interest costs of \$18,335 in 2007.

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 in the balance sheets. These costs have been deferred and are being amortized over the life of the related debt using the effective interest method.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

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

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. 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 and other miscellaneous revenue. Nonexchange revenues, including ad valorem taxes, grants, and contributions received for purposes other than capital asset acquisition, investment income, gain in joint venture and loss on disposal of capital assets 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 \$2,624,014 and \$2,160,243 for 2008 and 2007, respectively.

16. Ad valorem taxes

The District received approximately 4.7% and 4.0% of its sources of funds from ad valorem taxes in 2008 and 2007, respectively. These funds were used to support the operating and capital 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.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

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

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.

19. Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation of physician guarantee receivable.

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.

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

	<u>2008</u>	<u>2007</u>
FDIC insured	\$ 1,000,000	\$ 300,000
Collateralized by securities held by the pledging financial institution's trust department or agent in other than the District's name	<u>36,211,855</u>	<u>34,424,277</u>
Total	<u>\$ 37,211,855</u>	<u>\$ 34,724,277</u>
Carrying value on the balance sheets at December 31	<u>\$ 36,868,779</u>	<u>\$ 33,857,700</u>

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

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

NOTE B - DEPOSITS AND INVESTMENTS - Continued

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, 2008 and 2007, investments amounted to \$11,220,862 and \$15,974,571, 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:

	2008	2007
Carrying value		
Deposits	\$ 36,868,779	\$ 33,857,700
Investments	8,731,192	13,511,312
Cash on hand and change funds	2,650	2,650
	\$ 45,602,621	\$ 47,371,662
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 34,381,759	\$ 31,397,091
Investments	1,419,420	1,393,010
Assets limited as to use		
Under bond agreement	2,382,932	4,608,354
Under pension plan agreement (fiduciary assets)	7,418,510	9,973,207
	\$ 45,602,621	\$ 47,371,662

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

The District has agreements with third-party payors 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.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

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

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.

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

	2008	2007
Patient accounts receivable, gross	\$ 8,413,180	\$ 9,536,924
Allowance for doubtful accounts	(1,082,974)	(820,853)
Allowance for contractual adjustments	(1,271,921)	(1,713,504)
Patient accounts receivable, net	\$ 6,058,285	\$ 7,002,567
Gross patient service revenue	\$ 71,327,726	\$ 67,776,454
Less		
Medicare contractals	4,647,072	5,113,412
Medicaid contractals	1,078,981	795,042
Other contractals and adjustments	6,559,683	7,037,190
Charity care	2,624,014	2,160,243
Provision for doubtful accounts	2,938,033	283,794
Net patient service revenue	\$ 53,479,943	\$ 52,386,773

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

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:

	2008	2007
Medicare	17%	14%
Medicaid	2	3
Blue Cross	11	10
Other third-party payors	63	62
Self-pay	7	11
	100%	100%

NOTE E – PHYSICIAN GUARANTEE CONTRACTS

The District has 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 14 months. For those physicians under a guarantee contract with a forgiveness period, they are required, for a minimum of their commitment period, which consists of 24 to 36 months, to diligently and fully devote their efforts and time to the operation of their practice in 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 \$233,336 and \$399,586 at December 31, 2008 and 2007, respectively. The carrying amounts of the physician guarantee contracts are included in the balance sheets as follows:

	2008	2007
Other receivables	\$ 256,983	\$ 282,430
Physician guarantee receivable	694,681	559,250
	\$ 951,664	\$ 841,680
Other accrued liabilities	\$ 193,707	\$ 380,563

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

NOTE F - CAPITAL ASSETS

Capital assets activity for the years ended December 31, 2008 and 2007 is as follows:

	2008				
	Beginning balance	Additions	Deletions	Transfers	Ending balance
Land	\$ 267,057	\$ -	\$ -	\$ -	\$ 267,057
Land improvements	658,338	-	-	393,422	1,051,760
Building	13,722,898	-	(677,362)	5,842,666	18,888,202
Fixed equipment	2,601,944	-	(19,175)	133,258	2,716,027
Movable equipment	26,766,246	1,951,135	(597,513)	779,060	28,898,928
Employee housing	7,802,812	746,149	-	-	8,548,961
Construction in progress	5,917,273	4,396,858	-	(7,148,406)	3,165,725
Total cost	57,736,568	7,094,142	(1,294,050)	-	63,536,660
Less accumulated depreciation					
Land improvements	566,376	15,455	-	4,918	586,749
Building	7,046,867	558,963	(463,432)	93,432	7,235,830
Fixed equipment	2,533,438	46,719	(18,675)	2,221	2,563,703
Movable equipment	13,954,667	3,156,759	(545,885)	(100,571)	16,464,970
Employee housing	2,393,685	283,677	-	-	2,677,362
Total accumulated depreciation	26,495,033	4,061,573	(1,027,992)	-	29,528,614
Capital assets, net	\$ 31,241,535	\$ 3,032,569	\$ (266,058)	\$ -	\$ 34,008,046
	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

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

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, 2008 and 2007 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:

	<u>2008</u>	<u>2007</u>
Unpaid claims at beginning of year	\$ 567,801	\$ 660,994
Total incurred claims and claim adjustment expenses	3,064,228	3,091,636
Total payments	<u>(3,120,029)</u>	<u>(3,184,829)</u>
Total unpaid claims and claim adjustment expenses at end of year	<u>\$ 512,000</u>	<u>\$ 567,801</u>

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 Wachovia Bank N.A. and is payable each April 15 and October 15. The variable rate at December 31, 2008 and 2007 was 1.98% and 3.48%, 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.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

NOTE I - LONG-TERM DEBT - Continued

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, 2008 and 2007.

Hospital Refunding Bonds – Series 2007, due 2026, payable in increasing varying annual installments through October 15, 2026, bearing interest rates of 4.375% to 5%, payable semi-annually. The Series 2007 Bonds are issued and pursuant to and are secured by the Bond Resolution. The Bonds are limited obligations payable solely from the net revenues derived from operations of the District.

The District was in compliance with all covenants pertaining to the 2007 Bonds at December 31, 2008 and 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. \$530,000 and \$410,000 of the Series 2000 and 2001, respectively, are outstanding as of December 31, 2008 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.

During 2008, the District entered into a 2.59% note payable, principal and interest payable monthly, due 2013 with a final balloon payment, collateralized by property.

The District has capitalized lease obligations at varying rates of imputed interest maturing between 2009 and 2013 that are collateralized by leased equipment.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

NOTE I - LONG-TERM DEBT - Continued

A schedule of changes in the District's long-term debt activity for 2008 and 2007 is as follows:

	2008					
	Beginning balance	Additions	Deletions	Ending balance	Amounts due within one year	Long-term portion
2003 revenue bonds payable	\$ 11,215,000	\$ -	\$ (125,000)	\$ 11,090,000	\$ 125,000	\$ 10,965,000
2007 revenue bonds payable	12,970,000	-	(440,000)	12,530,000	455,000	12,075,000
Note payable	-	605,554	-	605,554	13,509	592,045
Capital leases	1,477,588	1,562,641	(806,119)	2,234,110	653,602	1,580,508
	25,662,588	2,168,195	(1,371,119)	26,459,664	1,247,111	25,212,553
Unamortized premium on Series 2007 bonds	238,881	-	(20,024)	218,857	20,024	198,833
Unamortized loss un refunding 2000 and 2001 bonds	(945,350)	-	55,069	(890,281)	(55,069)	(835,212)
	<u>\$ 24,956,119</u>	<u>\$ 2,168,195</u>	<u>\$ (1,336,074)</u>	<u>\$ 25,788,240</u>	<u>\$ 1,212,066</u>	<u>\$ 24,576,174</u>
	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 un refunding 2000 and 2001 bonds	-	(991,240)	45,890	(945,350)	(55,069)	(890,281)
	<u>\$ 25,487,899</u>	<u>\$ 13,736,261</u>	<u>\$ (14,268,041)</u>	<u>\$ 24,956,119</u>	<u>\$ 1,084,237</u>	<u>\$ 23,871,882</u>

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

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		Note payable		Capital leases	
	Principal	Interest	Principal	Interest	Principal	Interest
Year ending December 31						
2009	\$ 580,000	\$ 829,364	\$ 13,509	\$ 15,741	\$ 653,602	\$ 74,591
2010	605,000	805,275	13,868	15,381	589,776	52,774
2011	625,000	780,001	14,237	15,013	550,761	32,038
2012	645,000	753,775	14,615	14,635	328,291	13,155
2013	670,000	726,601	549,325	13,090	111,680	701
2014-2018	3,760,000	3,198,067	-	-	-	-
2019-2023	4,615,000	2,192,910	-	-	-	-
2024-2028	5,580,000	1,162,735	-	-	-	-
2029-2033	6,540,000	394,812	-	-	-	-
	<u>\$ 23,620,000</u>	<u>\$ 10,843,540</u>	<u>\$ 605,554</u>	<u>\$ 73,860</u>	<u>\$ 2,234,110</u>	<u>\$ 173,259</u>

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

	2008	2007
Equipment	\$ 4,049,490	\$ 3,430,097
Less accumulated amortization	<u>1,404,895</u>	<u>1,339,015</u>
	<u>\$ 2,644,595</u>	<u>\$ 2,091,082</u>

NOTE J - OPERATING LEASES

The District leases various facility spaces and equipment under operating leases expiring through 2013. Future five-year minimum lease payments under these noncancelable leases at December 31, 2008 are:

2009	\$ 942,363
2010	692,680
2011	353,048
2012	232,601
2013	<u>237,776</u>
Future minimum lease payments	<u>\$ 2,458,468</u>

Rental expense for all operating leases at December 31, 2008 and 2007 was \$1,220,000 and \$1,046,168, respectively.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

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, 2008. 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, 2008 and 2007, the District received contributions of \$121,280 and \$893,990, respectively, from the Foundation and as of December 31, 2008 and 2007, pledge receivable amounts are \$1,272,554 and \$1,686,186, respectively.

NOTE M - PENSION PLANS

1. Defined contribution plan

During 2008, the District converted its 403(b) voluntary tax deferred annuity plan into a 457(b) plan. The District's employees who participated in the voluntary tax deferred annuity plan were allowed to roll over all or a portion of their retirement into the 457(b) plan. The rollover contributions are 100% vested. The District provides the 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 and 403(b) plan were \$1,276,907 and \$1,329,905 for the years ended December 31, 2008 and 2007, respectively. The District does not make contributions to the 457(b) plan.

During 2008, the District started 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 1/2% of their annual compensation; 5% for purposes of the CEO. Contribution expense to the 401(a) plan and the 403(b) plan was \$290,958 and \$344,922 for the years ended December 31, 2008 and 2007, respectively.

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

NOTE M - PENSION PLANS - Continued

2. 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.

3. 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.

4. Annual pension cost and net pension asset

The District's annual pension cost and net pension asset to the Plan for the years ended December 31, 2008 and 2007 was as follows:

	2008	2007
Annual required contribution	\$ 1,043,735	\$ 492,369
Interest on net pension obligation	(29,069)	(17,367)
Adjustment to annual required contribution	35,086	31,860
Annual pension cost	1,049,752	506,862
Contributions made	(1,148,692)	(856,036)
Increase in net pension asset	(98,940)	(349,174)
Net pension asset at beginning of year	370,060	20,886
Net pension asset at end of year	\$ 469,000	\$ 370,060

The annual required contribution for the years ended December 31, 2008 and 2007 was determined as part of the January 1, 2008 and the June 1, 2007 actuarial valuation using the unit credit cost method. The actuarial assumptions for the years ended December 31 are as follows:

	2008	2007
Long-term investment rate of return (net of administrative expenses)	7.50%	7.50%
Projected salary increases after ten years	5.50%	5.50%
Inflation component per year	3.00%	3.00%

Aspen Valley Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

NOTE M - PENSION PLANS - Continued

4. Annual pension cost and net pension asset - continued

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, 2008 and 2007 is ten years.

5. Three-year trend information

<u>Year ended</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>New pension asset</u>
2006	\$ 910,189	106%	\$ 20,886
2007	\$ 506,862	97%	\$ 370,060
2008	\$ 1,049,752	109%	\$ 469,000

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

In the normal course of business, the District is, from time to time, subject to allegations that may or may not result in litigation. 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. The District did not record any expected losses for the years ended December 31, 2008 and 2007. Events could occur that would cause the estimate of ultimate loss to differ in the near term.

SUPPLEMENTARY INFORMATION

Aspen Valley Hospital District

SCHEDULE OF FUNDING PROGRESS - CASH BALANCE RETIREMENT PLAN

Years ended December 31, 2008 and 2007

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%
1/1/08	\$ 9,990,736	\$ 10,615,471	\$ (624,735)	94%	\$ 16,039,223	-4%

Aspen Valley Hospital District

SCHEDULE OF EMPLOYER CONTRIBUTIONS - CASH BALANCE RETIREMENT PLAN

Years ended December 31, 2008 and 2007

<u>Fiscal year</u>	<u>Annual required contribution (ARC)</u>	<u>Percentage of ARC contributed</u>
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	100%
2008	\$1,043,735	110%

Aspen Valley Hospital District

STATEMENT OF BUDGETED AND ACTUAL REVENUES AND EXPENSES

Year ended December 31, 2008

	Budgeted amount		Actual		Favorable (unfavorable) variance
	Original				
Operating revenues					
Net patient service revenue	\$ 53,932,647		\$ 53,479,943		\$ (452,704)
Other revenues	1,614,253		1,720,313		106,060
	55,546,900		55,200,256		(346,644)
Operating expenses	53,911,021		52,892,506		1,018,515
Operating income	1,635,879		2,307,750		671,871
Nonoperating revenues (expenses)					
Ad valorem taxes	3,823,920		3,667,045		(156,875)
Investment income	1,200,000		738,041		(461,959)
Interest expense	(1,259,032)		(1,178,300)		80,732
Noncapital contributions	55,000		101,890		46,890
Gain on investment in joint venture	297,037		66,256		(230,781)
Loss on disposal of capital assets	-		(264,984)		(264,984)
	4,116,925		3,129,948		(986,977)
Income before capital contributions, member distributions, net, and equity contribution	5,752,804		5,437,698		(315,106)
Capital contributions	500,000		70,996		(429,004)
Member distributions, net	-		636,582		636,582
Equity contribution	-		(642,747)		(642,747)
Change in net assets	\$ 6,252,804		\$ 5,502,529		\$ (750,275)

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 2008.

Component units operating results are included in the budgeted amount original column above, but are not reflected in the actual column above. The change in net assets for the component units was \$655,174 in 2008.

Aspen Valley Hospital District

COMBINING BALANCE SHEET - COMPONENT UNITS

December 31, 2008

	ASSETS			
	Midvalley Ambulatory Surgery Center, LLC	Snowmass Clinic Associates, LLP	Midvalley Imaging Center, LLC	Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 188,545	\$ 128,646	\$ 106,634	\$ 423,825
Patient accounts receivable, net	510,877	23,839	176,410	711,126
Other receivables	-	12,458	5,000	17,458
Inventories	114,178	27,846	-	142,024
Prepaid expenses	-	170,473	-	170,473
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	813,600	363,262	288,044	1,464,906
CAPITAL ASSETS, NET	232,097	190,346	1,044,106	1,466,549
OTHER ASSETS (NET)	-	152,067	-	152,067
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 1,045,697</u>	<u>\$ 705,675</u>	<u>\$ 1,332,150</u>	<u>\$ 3,083,522</u>
 LIABILITIES AND UNRESTRICTED NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 49,575	\$ 27,832	\$ 4,515	\$ 81,922
Other accrued liabilities	58,436	79,482	7,762	145,680
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	108,011	107,314	12,277	227,602
MINORITY INTERESTS	459,466	119,672	652,253	1,231,391
UNRESTRICTED NET ASSETS	478,220	478,689	667,620	1,624,529
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and unrestricted net assets	<u>\$ 1,045,697</u>	<u>\$ 705,675</u>	<u>\$ 1,332,150</u>	<u>\$ 3,083,522</u>

Aspen Valley Hospital District

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

Year ended December 31, 2008

	Midvalley Ambulatory Surgery Center, LLC	Snowmass Clinic Associates, LLP	Midvalley Imaging Center, LLC	Total
Operating revenues				
Net patient service revenue	\$2,490,509	\$ 833,783	\$ 390,423	\$3,714,715
Operating expenses				
Salaries and wages	444,544	403,163	56,989	904,696
Supplies and other	1,197,238	342,564	99,608	1,639,410
Depreciation and amortization	74,675	59,951	86,340	220,966
Total operating expenses	1,716,457	805,678	242,937	2,765,072
Operating income	774,052	28,105	147,486	949,643
Nonoperating revenues (expenses)				
Investment income	14,215	4,342	-	18,557
Income before member distributions, net, equity contribution and minority interests	788,267	32,447	147,486	968,200
Member distributions, net	(950,000)	-	-	(950,000)
Equity contribution	-	55,101	1,172,387	1,227,488
Minority interests	79,249	(17,510)	(652,253)	(590,514)
Change in net assets	(82,484)	70,038	667,620	655,174
Net assets at beginning of year	560,704	408,650	-	969,354
Net assets at end of year	\$ 478,220	\$ 478,688	\$ 667,620	\$1,624,528

Aspen Valley Hospital District

COMBINING STATEMENT OF CASH FLOWS - COMPONENT UNITS

Year ended December 31, 2008

	Midvalley Ambulatory Surgery Center, LLC	Snowmass Clinic Associates, LLP	Midvalley Imaging Center, LLC	Total
Cash flows from operating activities				
Cash received from patients and third-party payors	\$ 2,773,439	\$ 834,147	\$ 214,013	\$ 3,821,599
Cash paid to others	-	(2,198)	(5,000)	(7,198)
Cash paid to suppliers	(1,217,914)	(227,962)	(87,331)	(1,533,207)
Cash paid to employees	(444,544)	(403,163)	(56,989)	(904,696)
Net cash provided by operating activities	1,110,981	200,824	64,693	1,376,498
Cash flows from capital and related financing activities				
Purchases of capital assets	(59,535)	(166,061)	(1,130,446)	(1,356,042)
Cash flows from investing activities				
Investment income	14,215	4,342	-	18,557
Member distributions, net	(950,000)	-	-	(950,000)
Equity contribution	-	55,101	1,172,387	1,227,488
Net cash provided by (used in) investing activities	(935,785)	59,443	1,172,387	296,045
Net increase in cash and cash equivalents	115,661	94,206	106,634	316,501
Cash and cash equivalents at beginning of year	72,884	34,440	-	107,324
Cash and cash equivalents at end of year	<u>\$ 188,545</u>	<u>\$ 128,646</u>	<u>\$ 106,634</u>	<u>\$ 423,825</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 774,052	\$ 28,105	\$ 147,486	\$ 949,643
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	74,675	59,951	86,340	220,966
Change in assets and liabilities				
Patient accounts receivable	282,930	364	(176,410)	106,884
Other receivables	-	(4,259)	(5,000)	(9,259)
Inventories	29,276	(3,748)	-	25,528
Prepaid expenses	-	88,084	-	88,084
Other assets	-	2,061	-	2,061
Accounts payable	23,606	11,185	4,515	39,306
Other accrued liabilities	(73,558)	19,081	7,762	(46,715)
Net cash provided by operating activities	<u>\$ 1,110,981</u>	<u>\$ 200,824</u>	<u>\$ 64,693</u>	<u>\$ 1,376,498</u>



© Grant Thornton LLP
All rights reserved
U.S. member firm of Grant Thornton International Ltd

This report is confidential. Unauthorized use of this report in whole or in part is strictly prohibited.