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JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 and 2006

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8/6/08



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JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 and 2006

CONTENTS

	<u>Page</u>
Report of Independent Auditors	2
Management's Discussion and Analysis (required supplementary information)	4
Basic Financial Statements	
Government-Wide Financial Statements – Enterprise Fund:	
Balance Sheets	25
Statements of Revenues, Expenses, and Changes in Net Assets	27
Statements of Cash Flows	28
Fund Financial Statements – Fiduciary Fund:	
Statement of Plan Net Assets	30
Statement of Changes in Plan Net Assets	31
Notes to Basic Financial Statements	32
Schedule - Required Supplementary Information under GASB Statement No. 25	55

Report of Independent Auditors

**The Board of Directors
Jefferson Parish Hospital Service District No. 1**

We have audited the accompanying basic financial statements of Jefferson Parish Hospital Service District No. 1 (the Service District), a component unit of Jefferson Parish, as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Service District's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the pension trust fund and required supplementary information schedule and the West Jefferson Service Corporation, whose assets and operating revenues represent 2.2% and 0.76%, respectively, of the assets and operating revenue of the Service District's enterprise fund as described in note 1 to the financial statements. Those financial statements were audited by other auditors whose reports thereon were furnished to us, and our opinion, herein, insofar as it relates to the amounts included for the pension trust fund and the West Jefferson Service Corporation, is based upon the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Service District's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Service 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based upon our audits and report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Service District at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated April 18, 2008 on our consideration of the Service District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 24 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Postlethwaite & Netterville

Metairie, Louisiana
April 18, 2008

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2007 AND 2006

This section of Jefferson Parish Hospital Service District No. 1's (the Service District), a component unit of Jefferson Parish, annual financial report provides important background information and management's analysis of the Service District's financial performance during the years ended December 31, 2007 and 2006. Please read this section in conjunction with the basic financial statements beginning on page 25 and the notes to the basic financial statements beginning on page 32 in this report.

FINANCIAL HIGHLIGHTS

Service District - Financial Highlights for the Year Ended December 31, 2007

Fiscal year 2007 was a year of continuing progress for the Service District as it moved forward in its recovery from the effects of Hurricane Katrina that hit the gulf coast on August 29, 2005. The Service District was one of only three hospitals open in the entire New Orleans metropolitan area during the hurricane and the only one open on the West Bank at the time. As a direct result of the hurricane's impact on the region's health care resources, in late 2005 and 2006 the Service District, along with other area hospitals, experienced a dramatic increase in the volume of uninsured patients seeking services. The Service District continues its efforts to work with the State of Louisiana (the State) to obtain funding for the increased volume of uninsured patients and to work with the federal government to secure funding for the increase in labor costs that would not otherwise be reimbursed through the Medicare wage index until 2009 at the earliest.

During 2007, the Service District received approximately \$11.7 million of funding from the State to partially offset some of its uncompensated care costs. Of this amount, \$5.7 million is reflected in 2007 operating results while \$6.0 million was recorded as a receivable at December 31, 2006. At December 31, 2007, the Service District recorded a receivable of approximately \$2.5 million representing one-half of an initial \$4.9 million in State funding for the State's 2008 fiscal year. The \$4.9 million was received in February 2008. Also in 2007 the Service District recorded \$3.7 million of Medicare wage index grant funding which partially offset the increased labor costs since the hurricane as noted above. Total amounts from State and federal funding reflected in 2007 operating results were approximately \$11.9 million compared to approximately \$16.8 million in 2006. Overall, these payments represent only a partial recovery of actual costs incurred.

In August 2007, the Service District settled its business interruption and property damage insurance claims resulting from Hurricane Katrina. The Service District received approximately \$5.1 million to settle these claims. As a result of the settlement, the Service District released its claims against its insurer and dismissed the litigation initiated in August 2006. Of the settlement amount, approximately \$4.8 million was recorded as other operating revenue and approximately \$300,000 is recorded as a liability owed to the federal government.

The Service District continues to work with the Federal Emergency Management Agency (FEMA) to submit claims for reimbursement for qualifying expenses that, due to insurance coverage limitations, were not reimbursed under its casualty or business interruption insurance policies. In 2007, the Service District received approximately \$691,000 of reimbursement for its incurred expenses and recorded a receivable of approximately \$1.7 million at December 31, 2007, of which \$1.5 million was received in January and February 2008.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2007 AND 2006

In February 2006, the Service District was granted a \$30.7 million Community Disaster Loan (the Loan) from the federal government. The terms of the Loan call for interest to be accrued at 2.74% annually which is to be repaid with the principal when the Loan becomes due in 2011. In 2007, Congress passed legislation which included the forgiveness of the Loan. However, to date no process has been established to apply for the Loan forgiveness. For fiscal year 2007, the Service District recorded accrued interest expense of approximately \$841,000 on the Loan; total accrued interest as of December 31, 2007 was \$1.6 million.

The following summarizes the Service District's financial highlights for the year ended December 31, 2007:

- Operating results improved in 2007 over 2006, with the Service District recording operating income of \$2.8 million compared to an operating loss of \$9.1 million for the prior year. Included in these results are the State and Medicare wage index grants and the settlement of business interruption and property damage claims noted above. Without these amounts, the Service District would have recorded an operating loss of approximately \$14.7 million and \$26.0 million in 2007 and 2006, respectively.
- The Service District reported total revenues in excess of expenses before assessments of \$6.6 million in 2007 compared to expenses in excess of revenues of \$7.1 million in 2006.
- The Service District recorded an increase in net patient revenue of just under 1% in 2007 compared to 2006.
- The Service District had positive cash flow from operations and earnings on investments, offset by capital expenditures and payments on debt resulting in a net decrease in cash and cash equivalents of \$2.7 million, as compared to 2006 which had a net increase in cash and cash equivalents of \$8.8 million. The reason for the increase in 2006 was the Community Disaster Loan of approximately \$31 million offset by net cash used in operations and capital expenditures.
- Through its recruitment and retention efforts, the Service District reduced contract nursing expenses by 52% in 2007 compared to the prior year. The Service District also partnered with Our Lady of the Lake College School of Nursing to implement an on-site accelerated nursing degree program. The program, which began in January 2008, provides tuition and a stipend to students with undergraduate degrees who desire to become registered nurses. In exchange for the tuition and stipend the graduates agree to work as registered nurses at the Service District for three years after graduation from the program.

Service District - Financial Highlights for the Year Ended December 31, 2006

Fiscal 2006 was a recovery year for the Service District in the aftermath of Hurricane Katrina that hit the gulf coast on August 29, 2005. Because the Service District was only one of three hospitals open in the entire New Orleans metropolitan area during the hurricane and the only one open on the West Bank its patient revenues have been impacted with a substantial increase in charity care and self-pay patients.

As a direct result of the hurricane's impact on the region's health care resources, the Service District, along with other Louisiana hospitals, has experienced a dramatic increase in the volume of uninsured patients seeking services. During 2006, the Service District received approximately \$10.8 million of funding through the State of Louisiana to partially offset some of its uncompensated care costs. At December 31, 2006, the Service District recorded a receivable of \$6 million for additional amounts that were received from the State of Louisiana in 2007. These payments are only a partial recovery of actual costs incurred.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2007 AND 2006

At December 31, 2006, the Service District had repaid accelerated payments received from Medicare; Medicaid accelerated payments were repaid in 2005. Also as part of its recovery efforts, the Service District applied for and was granted a Community Disaster Loan (the Loan) from the federal government. The Loan proceeds, in the amount of \$30.7 million, were received by the Service District on February 22, 2006. The terms of the Loan call for interest to be accrued at 2.74% annually to be repaid with the principal when the Loan becomes due in 2011.

The Service District has been working with insurers on finalizing business interruption and property damage insurance and is in the process of submitting insurance claims under both coverages. To assist in this process, the Service District has engaged outside consultants. In addition, the Service District also worked with its consultants to submit claims for reimbursement to the Federal Emergency Management Agency (FEMA) for those qualifying expenses that, due to insurance coverage limitations, may not be reimbursed under its casualty or business interruption insurance. At December 31, 2006, the Service District has not recorded any amounts that may be received from its insurance coverages as the amounts are not estimable and recovery not certain.

At December 31, 2006 the Service District had not received any reimbursement from its property damage or business interruption coverage and did not record any amounts that might be received under these coverages. On August 18, 2006 the Service District initiated legal proceedings in U.S. District Court, Eastern District of Louisiana, against its business interruption insurance carrier seeking to recover amounts the Service District believes it is due under its business interruption coverage. Discovery began in the first quarter of 2007. While the Service District recorded a \$381,000 receivable from FEMA at December 31, 2006, as the Service District was advised of the amount to be received, the Service District has not recorded any other amounts that may be received from FEMA as the amounts are not estimable and recovery not certain.

The following summarizes the Service District's financial highlights for the year ended December 31, 2006:

- The Service District recorded a 2006 operating loss of \$9 million resulting primarily from the continuing effects of Hurricane Katrina. The Service District had an operating loss of \$32.4 million, after restatement, for 2005.
- The Service District reported an overall 36% increase in total operating revenue compared to 2005 due mainly to increased volumes because of the reduced availability of healthcare in the region as the community continues in its recovery mode.
- The Service District used \$6.7 million to fund operations during 2006 while waiting for state funding to offset the cost of providing indigent care. Investments in capital assets totaled \$21.9 million. Additionally, the Service District had net interest payments of \$6.9 million and principal repayments of \$1.5 million.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2007 AND 2006

- To assist the metropolitan area with retention of graduate medical students in the aftermath of Hurricane Katrina, in July 2006 the Service District received designation as a major teaching hospital. The Service District has agreements with LSU and Tulane University Schools of Medicine to accept graduate medical students in several disciplines. As a major teaching hospital, the Service District receives an increase in the Medicaid per diem rate.

Pension Trust Fund - Financial Highlights for the Year Ended December 31, 2007

The Plan's net assets increased \$2,870,890 and \$4,771,731 in 2007 and 2006, respectively. The 2007 increase in the Plan's net assets were primarily due to investment income resulting from net appreciation of investments and an increase in dividends, although these amounts decreased overall in the current year compared to 2006 due to less favorable market conditions in the current year. The Plan's employer contributions decreased by \$259,121 and \$616,097 in 2007 and 2006, respectively. Contribution amounts needed to fund the Plan are determined by an independent actuary.

The Plan's investments consist primarily of fixed income mutual funds, equity mutual funds, and money market funds, which increased by \$3,346,421 and \$5,410,704 in 2007 and 2006, respectively, due to employer contributions to the Plan and an increase in the fair value of the Plan's assets.

Pension Trust Fund - Financial Highlights for the Year Ended December 31, 2006

The Plan's net assets increased \$4,771,731 and \$2,684,209 in 2006 and 2005, respectively. The increases in net assets were primarily attributable to favorable market conditions. The Plan's employer contribution decreased by \$616,097 in 2006 and increased by \$256,229 in 2005. Contribution amounts needed to fund the Plan are determined by an independent actuary. The Plan's investments consist primarily of fixed income mutual funds, equity mutual funds, and money market funds, which increased by \$5,410,704 and \$2,410,167 in 2006 and 2005, respectively, due to employer contributions to the Plan and favorable market conditions.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements - Enterprise Fund

The Basic Financial Statements in this report are presented using Governmental Accounting Standards Board (GASB) accounting principles.

The balance sheets include all of the Service District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Service District creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the Service District, and assessing the liquidity and financial flexibility of the Service District.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net assets. These statements measure changes in the Service District's operations over the current and prior year and can be used to determine whether the Service District has been able to recover all of its costs through its patient service revenue and other revenue sources.

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Service District's cash from operating, investing, and financing activities and provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DECEMBER 31, 2007 and 2006

The financial statements provide both long-term and short-term information about the Service District's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The Service District's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the statements of revenues, expenses, and changes in net assets. All assets and liabilities associated with the operation of the Service District are included in the balance sheets.

The balance sheets and the statements of revenues, expenses, and changes in net assets report information about the Service District's activities. Increases or decreases in the Service District's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

Fund Financial Statements - Pension Trust Fund

The Service District's fund financial statements consist of its pension trust fund. As a fiduciary fund, the pension trust fund is held for the benefit of employees and retirees of the Service District. The pension trust fund is not reflected in the government wide financials because the resources are not available to the Service District for its activities. The accounting for the pension trust fund is much like that used by the enterprise fund.

The statements are followed by required supplementary information and other supplementary information that further explain and support the information in the financial statements.

FINANCIAL ANALYSIS - ENTERPRISE FUND

2007 and 2006 Balance Sheets – Enterprise Fund

Table 1A represents a summary of the financial changes to the Service District in 2007 as compared to 2006. The Service District's total assets decreased by approximately \$0.9 million, or .2% to \$393.1 million in 2007 compared to \$394.0 million in 2006.

Current Assets

Current assets decreased by approximately \$9.5 million. The decrease is primarily due to a \$2.7 million decrease in accounts receivable primarily reflecting increased efficiency in collection activities and a \$0.6 million decrease in other receivables due to a \$6.0 million uncompensated care receivable from the State recorded in 2006 and received in February 2007. The decrease was partially offset by a \$2.5 million receivable from the State recorded at December 31, 2007. Prepaid expenses increased by \$1.0 million primarily due to deposits with vendors and due to prepaid software maintenance contracts on the Service District's clinical and other software.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DECEMBER 31, 2007 and 2006

**TABLE 1A - 2007 vs. 2006
Condensed Balance Sheets**

	December 31		Dollar Change	Percent Change
	2007	2006		
Total current assets	\$ 74,496,336	\$ 83,986,021	\$ (9,489,685)	-11.3%
Board-designated investments	128,041,744	113,217,568	14,824,176	13.1%
Trustee-held assets	22,690,617	32,968,764	(10,278,147)	-31.2%
Property, plant, and equipment, net	159,931,124	154,333,273	5,597,851	3.6%
Other assets	7,954,264	9,460,818	(1,506,554)	-15.9%
Total Assets	<u>\$ 393,114,085</u>	<u>\$ 393,966,444</u>	<u>\$ (852,359)</u>	-0.2%
Current liabilities	\$ 40,616,714	\$ 37,904,490	\$ 2,712,224	7.2%
Long-term debt and other long-term liabilities	201,572,386	209,197,726	(7,625,340)	-3.6%
Total liabilities	<u>242,189,100</u>	<u>247,102,216</u>	<u>(4,913,116)</u>	-2.0%
Net assets	150,924,985	146,864,228	4,060,757	2.8%
Total liabilities and net assets	<u>\$ 393,114,085</u>	<u>\$ 393,966,444</u>	<u>\$ (852,359)</u>	-0.2%

Board-designated Cash and Investments

Board-designated cash and investments increased by approximately \$14.8 million in 2007 from 2006 due primarily to an increase in investment income in the current year as well as investment of receipts from the settlement of the Service District's business interruption insurance claim.

Property, Plant and Equipment

The following table presents the components of property, plant, and equipment at December 31, 2007 and 2006. In 2007, net property, plant, and equipment increased by approximately \$5.6 million, or 4%, as the Service District continued to enhance existing facilities and equipment including a new PET/CT scan system and a new neurovascular lab.

Construction in progress increased approximately \$5.0 million, or 57%, due primarily to projects such as technical and property infrastructure upgrades as well as software and equipment upgrades.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DECEMBER 31, 2007 and 2006

**TABLE 2A
Property, Plant and Equipment**

	December 31		Dollar Change	Percent Change
	2007	2006		
Land and land improvements	\$ 20,892,843	\$ 19,921,793	\$ 971,050	4.87%
Building and fixed equipment	174,844,855	170,767,874	4,076,981	2.39%
Equipment	181,320,322	169,694,745	11,625,577	6.85%
Subtotal	377,058,020	360,384,412	16,673,608	4.63%
Less accumulated depreciation	(230,978,154)	(214,867,965)	(16,110,189)	7.50%
Construction in progress	13,851,258	8,816,826	5,034,432	57.10%
Property, plant, and equipment, net	<u>\$ 159,931,124</u>	<u>\$ 154,333,273</u>	<u>\$ 5,597,851</u>	3.63%

In Table 3 below, the Service District's fiscal year 2008 capital budget projects spending of up to \$9.5 million for capital projects (excluding those projects approved in prior years). These projects represent primarily equipment purchases and will be financed from fund balance. More information about the Service District's capital assets is presented in the Notes to the Basic Financial Statements.

**TABLE 3
FISCAL YEAR 2008 CAPITAL BUDGET**

Equipment purchases	\$ 6,239,892
Construction/renovations	3,224,000
Prior year approved items	<u>9,564,000</u>
	<u>\$ 19,027,892</u>

Long-Term Debt

At 2007 and 2006, the Service District had \$197 million and \$208 million, respectively, in debt outstanding which includes the \$30.7 million Community Disaster Loan. In 2007, total debt decreased by approximately \$10.4 million due to principal payments. More detailed information about the Service District's long-term liabilities is presented in the Notes to Basic Financial Statements. Total debt outstanding represents approximately 50% of the Service District's total assets at December 31, 2007, compared to approximately 53% in 2006.

Net Assets

The following table presents the components of the Service District's net assets at December 31, 2007 and 2006:

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DECEMBER 31, 2007 and 2006

TABLE 4A
Components of Net Assets

	<u>December 31</u>		<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
	<u>2007</u>	<u>2006</u>		
Invested capital assets, net of related debt	\$ (6,846,658)	\$ (17,083,644)	\$ 10,236,986	-59.92%
Restricted	23,731,384	27,209,328	(3,477,944)	-12.78%
Unrestricted	134,040,259	136,738,544	(2,698,285)	-1.97%
Total net assets	<u>\$ 150,924,985</u>	<u>\$ 146,864,228</u>	<u>\$ 4,060,757</u>	2.76%

Net assets increased \$4.1 million during 2007 which was an improvement over a decrease in 2006. The 2006 decrease was a result primarily of the operating losses recognized in the period. Refer to the pages that follow Table 5 for a discussion of 2007 operations.

2006 and 2005 Balance Sheets - Enterprise Fund

Table 1B presents a summary of the financial changes to the Service District in 2006 as compared to 2005. The Service District's total assets increased by approximately \$17.5 million or approximately 5% to \$394 million in 2006 as compared to 2005.

Current Assets

Current assets increased by approximately \$19.6 million. The increase is primarily due to a \$8.8 million increase in cash and cash equivalents resulting from increased collection activity and a \$6.1 million increase in other receivables primarily due to recording a \$6.0 million uncompensated care receivable from the State. These increases were partially offset by a decrease in patient accounts receivable of approximately \$5.9 million due in part to increases in net patient revenue, offset by cash collections. Prepaid expense increased by \$1.0 million primarily due to prepaid software maintenance contracts on the Service District's clinical and other software.

Designated Cash and Investments

Designated cash and investments decreased in 2006 by approximately \$2.0 million from 2005 due primarily to an increase in investment income in the current year which was partially offset by the liquidation of investments to fund operations.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DECEMBER 31, 2007 and 2006

TABLE 1B - 2006 vs. 2005
Condensed Balance Sheets

	<u>December 31</u>		<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
	<u>2006</u>	<u>2005</u>		
Total current assets	\$ 83,986,021	\$ 64,382,667	\$ 19,603,354	30.45%
Board-designated investments	113,217,568	111,242,232	1,975,336	1.78%
Trustee-held assets	32,968,764	43,575,390	(10,606,626)	-24.34%
Property, plant, and equipment, net	154,333,273	148,716,727	5,616,546	3.78%
Other assets	9,460,818	8,602,993	857,825	9.97%
Total Assets	\$ 393,966,444	\$ 376,520,009	\$ 17,446,435	4.63%
Current Liabilities	\$ 37,904,490	\$ 42,618,552	\$ (4,714,062)	-11.06%
Long-term debt and other long-term liabilities	209,197,726	177,239,214	31,958,512	18.03%
Total liabilities	247,102,216	219,857,766	27,244,450	12.39%
Net assets	146,864,228	156,662,243	(9,798,015)	-6.25%
Total liabilities and net assets	\$ 393,966,444	\$ 376,520,009	\$ 17,446,435	4.63%

Property, Plant and Equipment

The following table presents the components of property, plant, and equipment at December 31, 2006 and 2005:

TABLE 2B
Property, Plant and Equipment

	<u>December 31</u>		<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
	<u>2006</u>	<u>2005</u>		
Land and land improvements	\$ 19,921,793	\$ 16,835,800	\$ 3,085,993	18.33%
Building and fixed equipment	170,767,874	149,328,501	21,439,373	14.36%
Equipment	169,694,745	159,283,432	10,411,313	6.54%
Subtotal	360,384,412	325,447,733	34,936,679	10.73%
Less accumulated depreciation	(214,867,965)	(200,343,052)	(14,524,913)	7.25%
Construction in progress	8,816,826	23,612,046	(14,795,220)	-62.66%
Property, plant, and equipment, net	\$ 154,333,273	\$ 148,716,727	\$ 5,616,546	3.78%

In 2006, net property, plant, and equipment increased by approximately \$5.6 million, or 4%, as the Service District continued to enhance existing facilities. Construction in progress decreased approximately \$14.8 million, or 63%, as the Service District capitalized construction costs on its completed support services facility.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DECEMBER 31, 2007 and 2006

In 2005, net property, plant, and equipment increased by approximately \$9.7 million or 7%, primarily due to costs incurred on the support services project and as the Service District continued to enhance existing facilities.

Long-Term Debt

In 2006 and 2005, the Service District had \$208 million and \$178 million, respectively, in debt outstanding. In 2006, total debt increased in the current year by approximately \$29.2 million, net of payments, due to a community disaster loan of approximately \$30.7 million offset by principal payments of approximately \$1.5 million. More detailed information about the Service District's long-term liabilities is presented in the Notes to the Basic Financial Statements. Total debt outstanding represents approximately 53% of the Service District's total assets at December 31, 2006, compared to approximately 46% in 2005.

Net Assets

The following table presents the components of the Service District's net assets at December 31, 2006 and 2005:

	TABLE 4B			
	Components of Net Assets		Dollar	Percent
	December 31			
	2006	2005	Change	Change
Invested capital assets, net of related debt	\$ (17,083,644)	\$ (7,527,829)	\$ (9,555,815)	126.94%
Restricted	27,209,328	16,751,235	10,458,093	62.43%
Unrestricted	136,738,544	147,438,837	(10,700,293)	-7.26%
Total net assets	<u>\$ 146,864,228</u>	<u>\$ 156,662,243</u>	<u>\$ (9,798,015)</u>	-6.25%

Net assets decreased \$9.8 million during 2006 which was an improvement over the \$36.9 million decrease in 2005. Both 2006 and 2005 decreases are a result primarily of the operating losses in each respective period. Refer to Table 8 and the pages that follow Table 8 for a discussion of operations.

2007 and 2006 Statements of Revenues and Expenses - Enterprise Fund

Operating Revenue - Net Patient Service Revenue

This discussion refers to the summarized activity presented in the Service District's Condensed Statements of Revenues and Expenses in Table 5 for 2007 and 2006.

Overall, net patient service revenue increased by approximately \$1.3 million, or 0.6%, for fiscal year 2007 when compared to an increase of \$70.2 million, or 46% in 2006 over 2005. In 2006 the Service District experienced significant increases in volumes as a result of the impact from Hurricane Katrina on the healthcare infrastructure in the metropolitan area. As of the end of 2005, several of the New Orleans area hospitals had yet not reopened which caused an increase in the volume of patients utilizing the Service District in 2006.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 and 2006

TABLE 5
CONDENSED STATEMENTS OF REVENUES AND EXPENSES
Years Ended December 31

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenue:				
Net patient service revenue	\$ 224,997,989	223,650,291	\$ 1,347,698	0.60%
Other operating revenue	18,778,535	11,221,607	7,556,928	67.34%
Total operating revenue	<u>243,776,524</u>	<u>234,871,898</u>	<u>8,904,626</u>	<u>3.79%</u>
Operating expenses:				
Salaries and wages	92,003,260	90,037,527	1,965,733	2.18%
Employee benefits	20,308,087	19,878,239	429,848	2.16%
Professional fees	21,349,109	16,058,733	5,290,376	32.94%
Medical and general supplies	43,695,856	43,219,415	476,441	1.10%
Purchased services	34,479,003	42,214,897	(7,735,894)	-18.33%
Other expenses	12,052,718	16,071,136	(4,018,418)	-25.00%
Depreciation	17,054,663	16,471,180	583,483	3.54%
Total operating expenses	<u>240,942,696</u>	<u>243,951,127</u>	<u>(3,008,431)</u>	<u>-1.23%</u>
Gain (loss) from operations	2,833,828	(9,079,229)	11,913,057	-131.21%
Total investment income	8,850,230	6,065,479	2,784,751	45.91%
Interest expense, net	(6,968,467)	(6,143,315)	(825,152)	13.43%
Other	1,888,735	2,027,257	(138,522)	-6.83%
Assessments by Jefferson Parish and support to others	(2,543,569)	(2,668,207)	124,638	-4.67%
Net assets, beginning of year	146,864,228	156,662,243	(9,798,015)	-6.25%
Net assets, end of year	<u>\$ 150,924,985</u>	<u>146,864,228</u>	<u>\$ 4,060,757</u>	<u>4.50%</u>

Inpatient gross revenue decreased by approximately 2% in 2007 compared to the prior year. The decrease is primarily a result of an overall 1% volume decrease in admissions, an 8% decrease in patient days and a 10% decrease in inpatient surgical services. Additionally, the overall case mix index decreased over the prior year. Total inpatient admissions decreased by approximately 1.2% to 17,646 admissions in 2007. The 2007 volumes declined from the significant artificial spike in volumes in 2006 due to the hurricane's effects on healthcare in the area.

General acute inpatient admissions decreased by approximately 0.8% to 15,880 in the current year. Total patient days decreased by approximately 7.8% to 92,263, while general acute patient days decreased by 6.3% to 76,997 patient days compared to the prior year. In addition, total average daily census decreased by 7.8% to 252.8 compared to 2006. Overall inpatient revenues and volumes in 2006 reflected the effects of Hurricane Katrina which significantly drove up volumes to artificially high levels, driving up volumes as a result of the decline in the number of healthcare providers in the metropolitan area.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DECEMBER 31, 2007 and 2006

Fiscal year 2007 inpatient activity reflects some progress in providers and services available in the area as well as moving away from the artificially high volume levels post-Katrina.

Outpatient gross revenue increased by 6.7% in 2007 compared to the prior year. The growth in outpatient gross revenue is attributable to an increase in outpatient billable units and service volumes such as physical, occupational and speech therapy units, endoscopy, radiation therapy, imaging services and hyperbaric services. Total gross emergency room visits decreased by 8.0% to 52,107 visits in 2007 compared to 2006, while total net emergency room visits (net of those patients who leave against medical advice or leave without completing the visit) decreased by 6.3%. Clinic visits of 80,488 were down 2.9% in the current year compared to 2006.

The Service District derived approximately 92% and 95% in 2007 and 2006 respectively, of its total net operating revenue from patient services. The Service District's revenue has historically generated from services provided to patients drawn primarily from communities located on the west bank of the Mississippi River in the Greater New Orleans area. In the immediate aftermath of Hurricane Katrina, all but the Service District and two other hospitals were closed in the New Orleans metropolitan area. In the interim, as other hospitals and medical facilities reopened, the Service District experienced an increase in the number of patients drawn from other communities in the New Orleans metropolitan area. Patient service revenue is generated by providing services to patients who are covered by Medicare, Medicaid, or managed care contracts, as well as by providing services to self-pay and indigent patients. The impact of Hurricane Katrina on the metropolitan area's health care facilities also resulted in changes to the Service District's payor mix. Self-pay patient revenues experienced major increases in late 2005 and 2006.

Table 6 below presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended December 31, 2007 and 2006.

**Table 6
PAYOR MIX**

	<u>2007</u>	<u>2006</u>
Managed care/commercial	31%	31%
Medicare	26%	27%
Medicare HMO	15%	13%
Medicaid	18%	17%
Self-pay and other	10%	12%
Total patient revenues	<u>100%</u>	<u>100%</u>

Reimbursements to the Service District are made on behalf of patients by the federal and state governments under the Medicare and Medicaid programs, respectively, by commercial insurance carriers and health maintenance organizations, as well as by patients on their own behalf. The difference between the covered charges and the payments under government programs and established contracts is recognized as a contractual allowance.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DECEMBER 31, 2007 and 2006

The following table presents the contractual allowances on gross billings by payor and the provision for doubtful accounts.

**TABLE 7
ALLOWANCE SUMMARY**

	<u>Years Ended December 31</u>	
	<u>2007</u>	<u>2006</u>
Contractual Allowances		
Managed care and commercial accounts	\$ 266,545,559	\$ 247,278,307
Medicaid contractual allowances	115,709,822	104,872,105
Medicare contractual allowances	149,159,604	155,579,840
Other adjustments	8,954,800	11,737,064
Total contractual allowances	<u>540,369,785</u>	<u>519,467,316</u>
Doubtful accounts	<u>19,430,889</u>	<u>35,255,036</u>
	<u>\$ 559,800,674</u>	<u>\$ 554,722,352</u>

In 2007, the doubtful accounts decreased by \$15,824,147 compared to 2006 due primarily to continued emphasis on assisting uninsured patients to apply and qualify for Medicaid benefits, increased collection efficiency in 2007 and due a revision of its estimates of the allowance for doubtful accounts based on review of more recent collection data. Also reflected in the decrease in doubtful accounts in 2007 was \$8.2 million of partial funding for uncompensated care which is recorded as a reduction of bad debt. Had these partial funding amounts not been recorded in 2007 doubtful accounts in 2007 would have been approximately \$27.6 million.

In 2006, doubtful accounts decreased by \$40,265,932 compared to 2005 as the Service District increased its allowance for doubtful accounts in the fourth quarter of 2005 due to the effects of Hurricane Katrina which resulted in an increase in self-pay accounts. In addition, Hurricane Katrina caused displacement of residents and businesses, as well as disruptions in mail service which impacted collection efforts. In 2006 the Service District recorded approximately \$13.0 million of uncompensated care receipts from the State of Louisiana and accrued a \$6.0 million receivable from the State for amounts that was paid in 2007 all of which represented partial reimbursement for the Service District's increased cost of uncompensated care resulting from the effects of Hurricane Katrina on healthcare in the region. These amounts were also recorded as a reduction of bad debt. Had these amounts not been recorded in 2006 doubtful accounts shown above would have been approximately \$54.0 million.

Other Operating Revenue

Other operating revenue includes income primarily generated by rent receipts from the Service District's professional office buildings and Medical Plaza, as well as income from other miscellaneous services, such as its fitness centers and Alzheimer's day care services. Also included in 2007 other operating revenue is approximately \$4.8 million of proceeds from the settlement of the Service District's business interruption and property damage claims.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DECEMBER 31, 2007 and 2006

Investment Income

The Service District maintains investments that are shown in its Balance Sheets as both board-designated and restricted trustee-held funds. These funds are invested primarily in money market funds and securities issued by the U.S. Treasury and other federal agencies.

Operating Expenses

Salaries and wages increased \$2.0 million, or 2%, compared to 2006. The increase primarily represents merit increases in the current year partially offset by the Service District's efforts to flex staffing to volumes.

Employee benefits increased by \$429,848, or 2%, in 2007 compared to the prior year due to an increase in group health insurance expenses primarily due to the severity of claims processed. This increase was partially offset by decreases in other taxes and benefits, workers compensation expenses and a decrease in pension and retirement expenses in part due to a lower actuarially determined contribution.

Professional fees increased by \$5.3 million, or 33%, compared to the prior year primarily due to increases in graduate medical education ("GME") expenses, ER physician professional fees, anesthesia professional fees and an increase in legal fees. The increase in 2007 GME expenses represents a full year of expenses compared to six months in the prior year as the program began in July 2006.

Medical and General Supply expenses were up \$476,441, or just over 1% compared to the prior year. The increase is primarily due to a 3% increase in drug costs and a 14% increase in blood supplies costs which were partially offset by an 8% decrease in I.V. solutions costs and an overall slight decrease in medical/surgical supply costs.

Purchased services decreased by \$7.7 million, or 18%, in 2007 compared to the prior year with \$6.3 million, or 82%, of the decrease resulting from the reduction in the use of contract labor. Total contract labor expenses decreased by 52% in 2007 compared to 2006. Contract labor expenses had increased 695% in 2006 compared to 2005 as the region experienced an acute nursing shortage resulting from Hurricane Katrina. The Service District intensified its recruitment and retention efforts to reduce its reliance on contract labor resulting in a reduction from approximately 100 contract FTEs in 2006 to just over 10 contract FTEs at year-end 2007. As discussed under "Financial Highlights" above, to assist with recruiting efforts the Service District also implemented an accelerated nursing program which began in January 2008. Also contributing to the year-to-date decrease in purchased services was \$1.4 million, or 7%, decrease in overall purchased services, and a \$283,000, or 8%, decrease in medical purchased services. These decreases were partially offset by an increase of \$247,000, or 9%, in computer maintenance contract expenses and an increase of \$273,000, or 21%, in collection services expense.

Other expenses decreased by \$4.0 million, or 25%, in 2007 compared to the prior year primarily due to a \$3.1 million change and reclassification in professional liability insurance expense. At December 31, 2006 the Service District recorded a \$1.9 million increase in professional liability reserves based on actuarial valuation of its reserve requirements. At December 31, 2007, the actuarial valuation of its reserve requirements resulted in the Service District reclassifying a total of \$1.3 million of reserves to workers' compensation, general liability and malpractice litigation expense reserves. The reclassification and increase to the workers compensation reserve is recorded as an increase in employee benefits expense while the malpractice litigation reserve increase is recorded as an increase in legal fees expense. Also included in the decrease in other expenses was a \$379,000, or 21%, decrease in equipment rental expense and an \$898,000, or 67%, decrease in advertising expenses.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DECEMBER 31, 2007 and 2006

Net interest expense increased by \$825,152, or 13%, primarily due to lower returns on the Service District's interest rate swap agreements as well as due to a decrease in investment income earned on bond trust investments which offsets interest expense.

2006 and 2005 Statements of Revenues and Expenses - Enterprise Fund

Operating Revenue - Net Patient Service Revenue

Table 8 compares 2006 to 2005 statements of revenues and expenses.

**TABLE 8
CONDENSED STATEMENTS OF REVENUES AND EXPENSES
Years Ended December 31**

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenue:				
Net patient service revenue	\$ 223,650,291	\$ 153,492,696	\$ 70,157,595	45.7%
Other operating revenue	11,221,607	10,697,974	523,633	4.9%
Total operating revenue	<u>234,871,898</u>	<u>164,190,670</u>	<u>70,681,228</u>	<u>43.0%</u>
Operating expenses:				
Salaries and wages	90,037,527	78,814,324	11,223,203	14.2%
Employee benefits	19,878,239	14,651,154	5,227,085	35.7%
Professional fees	16,058,733	14,323,073	1,735,660	12.1%
Medical and general supplies	43,219,415	32,142,430	11,076,985	34.5%
Purchased services	42,214,897	26,955,824	15,259,073	56.6%
Other expenses	16,071,136	13,270,622	2,800,514	21.1%
Depreciation	16,471,180	16,409,812	61,368	0.4%
Total operating expenses	<u>243,951,127</u>	<u>196,567,239</u>	<u>47,383,888</u>	<u>24.1%</u>
Loss from operations	(9,079,229)	(32,376,569)	23,297,340	-72.0%
Total investment income	6,065,479	2,223,170	3,842,309	172.8%
Interest expense, net	(6,143,315)	(6,141,027)	(2,288)	0.0%
Other	2,027,257	88,366	1,938,891	2194.2%
Assessments by Jefferson Parish	(2,668,207)	(666,667)	(2,001,540)	300.2%
Net assets, beginning of year	156,662,243	193,534,970	(36,872,727)	-19.1%
Net assets, end of year	<u>\$ 146,864,228</u>	<u>\$ 156,662,243</u>	<u>\$ (9,798,015)</u>	<u>-6.3%</u>

Overall, net patient revenue increased by approximately \$70.2 million, or 46%, for fiscal year 2006 when compared to a decrease of \$26.0 million, or 14% in 2005. In 2006, the Service District experienced an increase in some of its volumes as a result of the impact on healthcare in the metropolitan area as a result of Hurricane Katrina. The decrease in 2005 was a result of the effects of Hurricane Katrina, which resulted in the decrease of 10% in prior year's net patient revenue due to the evacuation of residents in the metropolitan New Orleans area, including the Service District's primary and secondary service areas.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DECEMBER 31, 2007 and 2006

As of the end of 2005, several the New Orleans area hospitals had yet not reopened, causing an increase in the volume of patients at utilizing the Service District. The Service District's allowance for doubtful accounts was increased as a result of a major increase in self-pay patient accounts due to Hurricane Katrina. In addition, the hurricane displaced residents and businesses, as well as caused disruptions in mail service which impacted collection efforts. During 2007, amounts as previously reported for 2005 were restated as a result of the identification of an error in the calculation of patient accounts receivables.

Inpatient gross revenue grew by approximately 21% in 2006 compared to the prior year. The increase is primarily due to an overall 4% volume increase in admissions, an 11% increase in patient days and an 18% increase in inpatient surgical services. The overall case mix index increased over the prior year. Total inpatient admissions grew by approximately 4.7% to 17,855 admissions in 2006. General acute inpatient admissions increased by 6.0% to 16,002 in the current year. Total patient days increased by approximately 11.5% to 100,055, while general acute patient days increased by 12.9% to 82,192 patient days compared to the prior year. In addition, total average daily census increased by 11.5% to 274.1 compared to 2005.

Outpatient gross revenue increased by 17.9% in 2006 compared to the prior year. Total outpatient units of service, excluding pharmacy outpatient units dispensed, emergency room visits, and clinic visits, increased by 18.2% in the current year compared to 2005. While total gross emergency room visits increased by 2.7% to 56,638 visits in 2006 compared to 2005, total net emergency room visits (net of those patients who leave against medical advice or leave without completing the visit) were consistent with the 2005 total which was affected by Hurricane Katrina. Clinic visits of 82,946 were up 21.3% in the current year compared to 2005.

The Service District derived approximately 95% and 93% in 2006 and 2005, respectively, of its total operating revenue from patient services. The Service District's revenue is historically generated from services provided to patients drawn primarily from communities located on the west bank of the Mississippi River in the Greater New Orleans area. In the immediate aftermath of Hurricane Katrina, all but the Service District and two other hospitals were closed in the New Orleans metropolitan area. In the interim, as other hospitals and medical facilities reopen, the Service District could experience an increase in the number of patients drawn from other communities in the New Orleans metropolitan area.

Patient service revenue is generated by providing services to patients who are covered by Medicare, Medicaid, or managed care contracts, as well as by providing services to self-pay and indigent patients. The impact of Hurricane Katrina on the metropolitan area's health care facilities resulted in changes to the Service District's payor mix. Self-pay patient revenues experienced major increases.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DECEMBER 31, 2007 and 2006

Table 9 below presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended December 31, 2006 and 2005.

**Table 9
PAYOR MIX**

	<u>2006</u>	<u>2005</u>
Managed care/commercial	31%	32%
Medicare	27%	29%
Medicare HMO	13%	11%
Medicaid	17%	18%
Self-pay and other	12%	10%
Total patient revenues	<u>100%</u>	<u>100%</u>

Reimbursements to the Service District are made on behalf of patients by the federal and state governments under the Medicare and Medicaid programs, respectively, by commercial insurance carriers and health maintenance organizations, as well as by patients on their own behalf. The difference between the covered charges and the payments under government programs and established contracts is recognized as a contractual allowance.

In 2006, doubtful accounts decreased compared to 2005 as the Service District increased its allowance for doubtful accounts in the fourth quarter of 2005 due to the effects of Hurricane Katrina and recorded in 2006 amounts that represent partial funding for uncompensated care. In 2006 the Service District recorded approximately \$13.0 million of uncompensated care receipts from the State of Louisiana, and accrued a \$6.0 million receivable from the State for amounts that were paid in 2007, which represent only a partial reimbursement for the Service District's increased cost of uncompensated care resulting from the effects of Hurricane Katrina on healthcare in the region. These amounts were recorded as a reduction of bad debt. Had these amounts not been recorded in 2006 doubtful accounts shown above would have been approximately \$54.0 million. In 2005, doubtful accounts increased due to the effects of Hurricane Katrina, which resulted in an increase in self-pay accounts. In addition, Hurricane Katrina caused displacement of residents and businesses, as well as disruptions in mail service which impacted collection efforts.

Other Operating Revenue

Other operating revenue includes income primarily generated by rent receipts from the Service District's professional office buildings and Medical Plaza, as well as income from other miscellaneous services, such as its fitness centers and Alzheimer's day care services.

Investment Income

The Service District maintains investments that are shown in its Balance Sheets as both board-designated and restricted trustee-held funds. These funds are invested primarily in money market funds and securities issued by the U.S. Treasury and other federal agencies.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DECEMBER 31, 2007 and 2006

Operating Expenses

Salaries for 2006 increased \$11.2 million, or 14%, compared to 2005. The increase is due primarily to the effect of November 2005 market increases for a majority of the Service District's employees, a nursing market increase in July 2006 to assist in nursing retention efforts, as well as merit increases in the current year.

Employee Benefits increased in 2006 by \$5.2 million, or 36%, compared to 2005. The increase is primarily due to an increase in group health insurance expenses as well as increases in other taxes and benefits which include employee group life insurance and unemployment tax expenses. Also contributing to the increase was an increase in payroll tax expense due to the increase in salary expense noted above.

Professional Fees in 2006 increased \$1.7 million, or 12%, compared to the prior year. The increase is primarily due to ER physician professional fees which were not incurred in 2005, accrued graduate medical education (GME) program expenses which were not incurred in 2005, as well as an increase in anesthesia professional fees compared to the prior year.

Medical and General Supply spending in 2006 increased by \$11 million, or 34%, compared to the prior year. The 2006 increase was primarily due to a 49% increase in medical/surgical supplies cost for the Operating Room and an increase of 50% for Special Procedures as represented by increased case volumes. The increase is also partially due to a \$2.6 million, or 29%, increase in drug expenses resulting from higher utilization and increased drug costs.

Purchased Services expenses increased in 2006 by \$15.3 million, or 57%, compared to 2005. The increase compared to 2005 was primarily due to a \$10.6 million, or 695%, increase in contract labor as the region experienced an acute nursing shortage resulting from Hurricane Katrina. Also contributing to the year-to-date increase were: a \$1.7 million, or 9%, increase in overall purchased services, a \$1.6 million, or 92%, increase in medical purchased services due to inclusion of 2006 CyberKnife expenses and a \$1.1 million, or 64%, increase in computer maintenance and standard maintenance contract expenses.

Other expenses increased by \$2.9 million, or 21%, in 2006 compared to the prior year. The increase is due in part to increased professional liability and other insurance expenses as well as an increase in advertising expenses.

Interest expense remained consistent with the prior year. Interest expense in 2006 includes accrued interest on the \$30.7 million community disaster loan.

Pension Trust Fund

2007 Plan Net Assets

The Service District's total plan net assets of its pension trust fund at December 31, 2007 was approximately \$57 million, a 5.3% increase over December 31, 2006 (see table A-10). Plan net assets increased by \$2.9 million from 2006 primarily due to realized and unrealized gains on investments recognized in 2006 which were partially offset by a reduction in the Service District's actuarially determined contribution.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DECEMBER 31, 2007 and 2006

**Table A-10
Retirement Plan for Employees of West Jefferson Medical Center
Plan Net Assets**

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>Increase (Decrease)</u>
Cash and investments	\$ 55,499,338	\$ 52,152,917	\$ 3,346,421	6.4%
Receivables	2,042,846	2,205,329	(162,483)	-7.4%
Total assets	<u>57,542,184</u>	<u>54,358,246</u>	<u>3,183,938</u>	5.9%
Total liabilities	<u>319,133</u>	<u>6,085</u>	<u>313,048</u>	5144.6%
Plan net assets	<u>\$ 57,223,051</u>	<u>\$ 54,352,161</u>	<u>\$ 2,870,890</u>	5.3%

2006 Plan Net Assets

The Service District's total plan net assets of its pension trust fund at December 31, 2006 was approximately \$54.4 million, a 9.6% increase over December 31, 2005 (see table A-11).

**Table A-11
Retirement Plan for Employees of West Jefferson Medical Center
Plan Net Assets**

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>	<u>Increase (Decrease)</u>
Cash and investments	\$ 52,152,917	\$ 46,742,213	\$ 5,410,704	11.6%
Receivables	2,205,329	2,843,670	(638,341)	-22.4%
Total assets	<u>54,358,246</u>	<u>49,585,883</u>	<u>4,772,363</u>	9.6%
Total liabilities	<u>6,085</u>	<u>5,453</u>	<u>632</u>	11.6%
Plan net assets	<u>\$ 54,352,161</u>	<u>\$ 49,580,430</u>	<u>\$ 4,771,731</u>	9.6%

Plan net assets increased by \$4.8 million in 2006 primarily due to realized and unrealized gains on investments recognized in 2006 which were partially offset by a decrease in the Service District's actuarially determined contribution.

2007 Changes in Plan Net Assets

Table A-12 presents a summary of changes in Plan net assets for the year ended December 31, 2007. Contributions to the pension plan decreased in 2007 as compared to 2006 primarily as a result of the actuarially determined required contribution.

The increase in plan net assets of \$2.9 million resulted primarily from an increase in realized and unrealized gains and dividends on investments, although these amounts decreased overall in 2007 compared to 2006 due to less favorable market conditions in 2007. These increases were partially offset by the decrease in the required contribution and an increase in benefit payments.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DECEMBER 31, 2007 and 2006

Table A-12
Retirement Plan for Employees of West Jefferson Medical Center
Change in Plan Net Assets

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>Increase (Decrease)</u>
Additions:				
Contributions	\$ 1,864,390	\$ 2,123,511	\$ (259,121)	-12.2%
Net income on investments	<u>3,671,655</u>	<u>5,207,029</u>	<u>(1,535,374)</u>	-29.5%
Total additions	<u>5,536,045</u>	<u>7,330,540</u>	<u>(1,794,495)</u>	-24.5%
Deductions:				
Benefits	(2,478,313)	(2,300,810)	(177,503)	7.7%
Administrative expenses	<u>(186,842)</u>	<u>(257,999)</u>	<u>71,157</u>	-27.6%
Total deductions	<u>(2,665,155)</u>	<u>(2,558,809)</u>	<u>(106,346)</u>	4.2%
Change in net assets	2,870,890	4,771,731	(1,900,841)	-39.8%
Plan net assets, beginning of year	<u>54,352,161</u>	<u>49,580,430</u>	<u>4,771,731</u>	9.6%
Plan net assets, end of year	<u>\$ 57,223,051</u>	<u>\$ 54,352,161</u>	<u>\$ 2,870,890</u>	5.3%

2006 Changes in Plan Net Assets

Table A-13 presents a summary of changes in Plan net assets for the year ended December 31, 2006. The increase in plan net assets of \$4.8 million resulted primarily from realized and unrealized gains on investments in 2006 which were partially offset by the decrease in contributions and by increased benefit payments.

Table A-13
Retirement Plan for Employees of West Jefferson Medical Center
Change in Plan Net Assets

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>	<u>Increase (Decrease)</u>
Additions:				
Contributions	\$ 2,123,511	\$ 2,739,608	\$ (616,097)	-22.49%
Net income on investments	<u>5,207,029</u>	<u>2,154,565</u>	<u>3,052,464</u>	141.67%
Total additions	<u>7,330,540</u>	<u>4,894,173</u>	<u>2,436,367</u>	49.78%
Deductions:				
Benefits	(2,300,810)	(2,055,914)	(244,896)	11.91%
Administrative expenses	<u>(257,999)</u>	<u>(154,050)</u>	<u>(103,949)</u>	67.48%
Total deductions	<u>(2,558,809)</u>	<u>(2,209,964)</u>	<u>(348,845)</u>	15.79%
Change in net assets	4,771,731	2,684,209	2,087,522	77.77%
Plan net assets, beginning of year	<u>49,580,430</u>	<u>46,896,221</u>	<u>2,684,209</u>	5.72%
Plan net assets, end of year	<u>\$ 54,352,161</u>	<u>\$ 49,580,430</u>	<u>\$ 4,771,731</u>	9.62%

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

DECEMBER 31, 2007 and 2006

ECONOMIC FACTORS AND OTHER

Damages to the healthcare infrastructure, the economy and available housing stock as a result of Hurricane Katrina all contributed to a challenging environment for the metropolitan area and Jefferson Parish Hospital Service District No. 1 in 2006. Beginning in the fourth quarter of 2005 and continuing throughout calendar year 2006, the Service District experienced an increase in uninsured patients resulting from the loss of the Charity System in New Orleans and the loss of other providers in the area's healthcare infrastructure. In addition, the Service District's overall average length of stay increased due to a lack of nursing home beds available for discharged patients.

The Service District recorded higher labor costs as well as contract labor costs in 2006 due to the continuing shortage of nurse staffing in the region. To overcome some of these challenges, the Service District's administration continues to focus on obtaining uncompensated care reimbursement from the state and grant funds and/or reimbursement from the federal government and its insurers. In addition, in July 2006 the Service District began providing graduate medical education which will provide some incremental increase in reimbursement. In 2007 the Service District continued its recruitment and retention efforts which resulted in a 52% decrease in contract labor. As part of these efforts, the Service District implemented an accelerated nursing program in January 2008. Under this program students receive tuition and a stipend in exchange for a commitment to work for the Service District for three years upon graduation from the program.

As a result of non-compliance with its bond covenants in 2005 and 2006, the Service District was required to engage consultants to assist the Service District to improve its operating results. The Service District engaged two consulting firms, the first of which assisted with the benchmarking of labor standards to a selected peer group of hospitals and recommended other operating changes designed to improve throughput and decrease operating expenses. These recommendations were adopted by the Service District's Board of Directors and were in progress at December 31, 2007. The second consulting firm was engaged to review the Service District's operations, incorporating the recommendations from the first consultant, to assist in strategic planning and service line analysis. These efforts were in progress at December 31, 2007.

In addition, the Service District received from its bond insurers agreements to forebear until January 1, 2008 from the exercise of their respective rights and remedies as a result of the identified defaults. Also, in May 2007 one of its bond insurers directed, under the terms of the trust indentures, that a springing mortgage be recorded on substantially all of the Service Districts property and equipment.

The Service District's CEO accepted another position in October 2007. At that time, the Service District's CFO was appointed to Interim CEO and, February 2008, was approved as the CEO by the Jefferson Parish Council. At December 31, 2007 the CEO was also serving as CFO until the CFO position is filled. The Service District is currently working to name a new CFO.

Contacting the Service District's Administration

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Service District's finances and demonstrate the Service District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Service District's Administration.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT No. 1
BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

Assets	<u>2007</u>	<u>2006</u>
Current Assets:		
Cash and cash equivalents	\$ 10,415,505	\$ 13,096,494
Patient accounts receivable, less allowance for doubtful accounts of \$37,836,951 in 2007 and \$45,850,424 in 2006	39,845,251	42,542,649
Other receivables	6,985,606	7,645,816
Inventory	4,064,181	4,200,050
Prepaid expenses	7,006,429	6,048,515
Designated cash and investments and that are required for current liabilities	<u>6,179,364</u>	<u>10,452,497</u>
Total current assets	<u>74,496,336</u>	<u>83,986,021</u>
 Designated cash and investments:		
By board for specific purposes, at fair value	134,221,108	123,670,065
Trustee-held assets, at fair value	<u>22,690,617</u>	<u>32,968,764</u>
Total designated cash and investments	<u>156,911,725</u>	<u>156,638,829</u>
Less amounts required for current liabilities	<u>(6,179,364)</u>	<u>(10,452,497)</u>
Noncurrent designated cash and investments	<u>150,732,361</u>	<u>146,186,332</u>
 Property, plant, and equipment, net	 <u>159,931,124</u>	 <u>154,333,273</u>
 Other assets:		
Unamortized financing costs	3,080,111	3,255,079
Prepaid deferred compensation	203,340	1,297,733
Other	<u>4,670,813</u>	<u>4,908,006</u>
Total other assets	<u>7,954,264</u>	<u>9,460,818</u>
Total assets	<u>\$ 393,114,085</u>	<u>\$ 393,966,444</u>

(Continued)

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT No. 1
BALANCE SHEETS, CONTINUED
DECEMBER 31, 2007 AND 2006

Liabilities and net assets	<u>2007</u>	<u>2006</u>
Current liabilities:		
Accounts payable	\$ 13,423,402	\$ 9,743,293
Accrued expenses	18,112,509	14,750,707
Patient deposits and credit balances	1,435,121	1,234,858
Due to government health care programs	1,466,318	1,723,135
Bond interest payable	4,399,364	4,432,497
Current installments of long-term debt	<u>1,780,000</u>	<u>6,020,000</u>
Total current liabilities	40,616,714	37,904,490
Accrued malpractice claims	4,098,491	5,311,790
Accrued deferred compensation	203,340	1,297,733
Interest payable, long-term	1,560,273	719,350
Long-term debt, net of original issue discount of \$1,157,218 in 2007 and \$1,253,647 in 2006	<u>195,710,282</u>	<u>201,868,853</u>
Total liabilities	<u>242,189,100</u>	<u>247,102,216</u>
Net assets:		
Invested in capital assets, net of related debt	(6,846,658)	(17,083,644)
Restricted	23,731,384	27,209,328
Unrestricted	<u>134,040,259</u>	<u>136,738,544</u>
Total net assets	<u>150,924,985</u>	<u>146,864,228</u>
Total liabilities and net assets	<u>\$ 393,114,085</u>	<u>\$ 393,966,444</u>

The accompanying notes are an integral part of these statements.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT No. 1
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Operating revenue:		
Net patient service revenue	\$ 224,997,989	\$ 223,650,291
Earnings from joint ventures	1,885,063	2,297,843
Other operating revenue	<u>16,893,472</u>	<u>8,923,764</u>
Total operating revenue	<u>243,776,524</u>	<u>234,871,898</u>
Operating expenses:		
Salaries and wages	92,003,260	90,037,527
Employee benefits	20,308,087	19,878,239
Professional fees	21,349,109	16,058,733
Medical and general supplies	43,695,856	43,219,415
Purchased services	34,479,003	42,214,897
Other expenses	12,052,718	16,071,136
Depreciation	<u>17,054,663</u>	<u>16,471,180</u>
Total operating expenses	<u>240,942,696</u>	<u>243,951,127</u>
Gain (loss) from operations	<u>2,833,828</u>	<u>(9,079,229)</u>
Investment income and other nonoperating income		
(expenses):		
Investment income	8,850,230	6,065,479
Interest expense, net of interest income from trustee-held assets of \$1,240,000 in 2007 and \$1,556,000 in 2006	(6,968,467)	(6,143,315)
Gain on sale of asset	-	175,000
Donated assets	56,470	222,482
Government operating grants	<u>1,087,910</u>	<u>1,063,698</u>
Total investment income and other non-operating income	<u>3,026,143</u>	<u>1,383,344</u>
Gain (loss) before capital contributions	5,859,971	(7,695,885)
Capital contributions	<u>744,355</u>	<u>566,077</u>
Gain (loss) before assessments by Jefferson Parish and support to others	6,604,326	(7,129,808)
Assessments by Jefferson Parish and support to others	(2,543,569)	(2,668,207)
Changes in net assets	4,060,757	(9,798,015)
Net assets, beginning of year, as restated (Note 13)	146,864,228	156,662,243
Net assets, end of year	<u>\$ 150,924,985</u>	<u>\$ 146,864,228</u>

The accompanying notes are an integral part of these statements.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT No. 1
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Operating activities		
Revenue collected	\$ 249,149,656	\$ 227,616,159
Cash payments to employees and for employee-related costs	(112,150,409)	(109,902,336)
Cash payments for operating expenses	(107,479,331)	(124,451,753)
Net cash provided by (used in) operating activities	<u>29,519,916</u>	<u>(6,737,930)</u>
Investing activities		
Purchases of investment securities	(4,381,663,380)	(3,150,916,444)
Proceeds from sales and maturities of investments	4,381,341,008	3,159,377,371
Investment income and other	9,798,106	7,573,972
Net cash provided by investing activities	<u>9,475,734</u>	<u>16,034,899</u>
Capital and related financing activities		
Interest payments, net	(7,304,248)	(6,899,185)
Proceeds from sale of property, plant, and equipment	-	421,952
Capital expenditures	(22,652,514)	(21,898,330)
Principal payments on borrowings	451,564	566,077
Debt financing costs	(10,495,000)	(1,460,000)
Net cash used in capital and related financing activities	<u>(40,000,198)</u>	<u>(29,269,486)</u>
Non-capital financing activity		
Operating grants	810,658	682,549
Proceeds from donations	56,470	-
Proceeds from issuance of debt	-	30,712,500
Assessments by Jefferson Parish	(2,543,569)	(2,668,207)
Net cash provided by (used in) noncapital financing activities	<u>(1,676,441)</u>	<u>28,726,842</u>
Net increase in cash and cash equivalents	(2,680,989)	8,754,325
Cash and cash equivalents, beginning of year	13,096,494	4,342,169
Cash and cash equivalents, end of year	<u>\$ 10,415,505</u>	<u>\$ 13,096,494</u>

Continued

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT No. 1
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

Reconciliation of loss from operations to net cash provided by (used in) operating activities

Loss from operations	\$ 2,833,828	\$ (9,079,229)
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:		
Depreciation	17,054,663	16,471,180
Amortization of bond financing costs	174,968	196,089
(Gain) loss on sale of property, plant and equipment	-	(213,865)
Bad debt expense	19,430,889	35,255,036
Equity in earnings of other investments	(245,661)	(1,299,821)
Changes in operating assets and liabilities:		
Accounts receivable, net	(16,533,198)	(37,494,688)
Inventory and prepaid expenses	(822,045)	(1,731,784)
Other receivables	1,205,476	(6,091,052)
Accounts payable	3,712,964	(991,283)
Accrued expenses and other liabilities	2,708,032	(1,758,513)
Net cash provided by (used in) operating activities	<u>\$ 29,519,916</u>	<u>\$ (6,737,930)</u>

Cash Paid During the Year:

Interest	<u>\$ 7,399,933</u>	<u>\$ 6,995,127</u>
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The accompanying notes are an integral part of these statements.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT No. 1
STATEMENTS OF NET ASSETS
PENSION TRUST FUND

DECEMBER 31, 2007 AND 2006

	2007	2006
Assets:		
Receivables:		
Accrued dividends	\$ 178,456	\$ 81,818
Employer contributions receivable	1,864,390	2,123,511
Total receivables	2,042,846	2,205,329
 Investments		
Cash equivalents	7,210,641	6,808,805
Equity mutual funds	31,111,378	31,498,609
Fixed income mutual funds	17,177,319	13,845,503
Total investments	55,499,338	52,152,917
Total assets	57,542,184	54,358,246
 Liabilities:		
Accrued trust fees	25,286	6,085
Due to brokers	293,847	-
	319,133	6,085
Plan net assets available for pension benefits	\$ 57,223,051	\$ 54,352,161

The accompanying notes are an integral part of these statements.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT No. 1
STATEMENTS OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUND

YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Additions:		
Employer contributions	\$ 1,864,390	\$ 2,123,511
Investment income:		
Dividends	2,131,049	1,305,771
Realized gains from sale of investments	409,118	845,475
Net appreciation	1,131,488	3,055,783
	<u>3,671,655</u>	<u>5,207,029</u>
Total additions	<u>5,536,045</u>	<u>7,330,540</u>
Deductions:		
Benefits	(2,478,313)	(2,300,810)
Administrative expenses	(186,842)	(257,999)
	<u>(2,665,155)</u>	<u>(2,558,809)</u>
Total deductions	<u>(2,665,155)</u>	<u>(2,558,809)</u>
Change in plan net assets	2,870,890	4,771,731
Plan net assets at beginning of year	<u>54,352,161</u>	<u>49,580,430</u>
Plan net assets at end of year	<u>\$ 57,223,051</u>	<u>\$ 54,352,161</u>

The accompanying notes are an integral part of these statements.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

1. Organization and Significant Accounting Policies

Organization

Jefferson Parish Hospital Service District No. 1 (the Service District), a component unit of Jefferson Parish, represents the combined financial statements of West Jefferson Medical Center (the Medical Center) and West Jefferson Service Corporation (the Service Corporation). The Medical Center operates an acute care hospital, physician clinics, medical office buildings, and health and fitness centers. The primary purpose of the Service Corporation is to support the activities of the Medical Center. The Medical Center and the Service District operate under the jurisdiction of the Parish Council of Jefferson Parish, Louisiana (the Parish) as Jefferson Parish Hospital Service District No. 1 and are exempt from federal and state income taxes.

The Service District has a 50% interest in the following entities accounted for under the equity method: MRI, Surgery Center, and CT scan. The Service District also has a 64.4% interest in a radiosurgery center and accounts for it using the equity method. Separate financial statements for each of these organizations can be obtained from the Service District.

Basis of Accounting

The Service District's basic financial statements consist of the government-wide statements which include the proprietary fund (the enterprise fund) and the fund financial statements which includes the fiduciary fund (the pension trust fund). The operations of the Service District are accounted for in the following fund types:

Proprietary Fund Type

The proprietary fund is used to account for the Service District's ongoing operations and activities which are similar to those often found in the private sector. The proprietary fund is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. Net assets are segregated into amounts invested in capital assets (net of related debt), restricted for debt service, restricted for capital projects and unrestricted. The Service District's restricted assets are expandable for their purposes. The Service District utilizes available restricted assets before utilizing unrestricted assets. The operating statements present increases (revenues) and decreases (expenses) in net assets. The Service District maintains one proprietary fund type – the enterprise fund. The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance.

Operating revenues include all charges for service; other revenues include non-operating revenues. The enterprise fund is presented in the government-wide financial statements. The Service District

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

uses the accrual basis of accounting for proprietary funds. Under Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting, the Service District has elected not to apply Financial Accounting Standards Service District pronouncements issued after November 30, 1989. As a governmental entity, the Service District also follows certain accounting and disclosure requirements promulgated by the GASB.

Fiduciary Fund Type

The fiduciary fund, the Retirement Plan for Employees of West Jefferson Medical Center (the Plan), is used to account for assets held by the Service District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The Service District maintains one fiduciary fund type - the pension trust fund. The pension trust fund uses the flow of economic resources measurement focus. All assets and liabilities associated with the operation of this fund are included in the statement of plan net assets. The pension trust fund is used to account for the activity of the Service District's employee retirement plan. The pension trust fund is presented in the fund financial statements. Additional information on the pension trust fund is presented in note 8.

Operating and Nonoperating Revenue

The Service District's primary purpose is to provide diversified health care services to individuals, physicians, and businesses. As such, activities related to the ongoing operations of the Service District are classified as operating revenue. Operating revenue includes amounts generated from direct patient care, related support services, earnings from joint venture investments, gains or losses from disposition of operating properties, and sundry revenue related to the operation of the Service District.

Interest income from trustee-held investments is reported as a net component of interest expense. Additionally, rental income, gains and losses that are directly related to the ongoing operations of the Service District, and gifts, grants, and bequests not restricted by donors for specific purposes are reported as a component of other operating revenue. Investment income, realized and unrealized gains (losses) from board-designated investments, as well as donated assets are reported as a component of nonoperating income.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with maturities of three months or less when purchased, excluding designated cash and investments by board designation or other arrangements under trust agreements or with third-party payers. Cash and cash equivalents include temporary cash investments whose use is not limited. The temporary cash investments have original maturities of three months or less at date of issuance. Certain temporary investments internally designated as long-term investments are excluded from cash and cash equivalents.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

Patient Accounts Receivable

Patient accounts receivables are carried at a net amount determined by the original charge for the services provided, less an estimate made for contractual adjustments or discounts provided to third party payers, less any payments received and less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Medical Center does not charge interest on patient receivables. Patient receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received. Receivables or payables related to estimated settlements on various risk contracts that the Hospital participates in are reported as estimated third-party pay or receivables or payables. As of December 31, 2007 and 2006, the allowance for doubtful accounts approximated \$37.8 million and \$45.9 million, respectively.

Investments

Investments are carried at fair value and all investment income, including changes in the fair value of investments is recognized in the Statements of Revenues, Expenses, and Changes in Net Assets.

Designated Cash and Investments

Designated cash and investments include cash, cash equivalents, and investments. These assets are designated as such in the accompanying Balance Sheets as they are held by bond trustees under related indenture agreements or designated as such by the board of directors.

Amounts classified as current assets represent amounts to be used to meet certain debt service requirements and other obligations classified as current liabilities.

Inventory

Inventory, which consists primarily of drugs and supplies, is stated at the lower of cost or market. The cost for drug inventory and operating room special order supplies is determined using the first-in, first-out method. The cost for supplies is determined using the weighted-average method.

Property, Plant, and Equipment

Property, plant, and equipment is stated at cost or, if donated, at fair value at the date of receipt, if known. Depreciation is computed on the straight-line basis over estimated useful lives as follows:

Land improvements	10 years
Buildings	10-40 years
Fixed equipment	10-25 years
Major movable equipment	5-10 years
Minor equipment	3-5 years

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

The Service District recognizes the impairment of capital assets when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. The restoration or replacement of an impaired capital asset is reported as a separate transaction from the associated insurance recovery. The impairment loss is reported net of the associated realized or realizable insurance recovery when the recovery and loss occur in the same year. Insurance recoveries reported in subsequent years are reported as nonoperating revenue.

Unamortized Financing Costs

Deferred financing costs are amortized over the period the obligation is expected to be outstanding using the straight-line method.

Other Assets

Other assets consist primarily of the Service District's ownership interest in a laundry cooperative and an ownership interest in a radiosurgery entity, which are both carried under the equity method of accounting.

Net Assets

The Service District classifies net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These components are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding debt attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in this component of net assets. Rather, that portion of debt is included in the same component of net assets as the unspent proceeds. At December 31, 2006, approximately \$5.8 of debt was included in unrestricted net assets.

Restricted - This component reports those net assets with externally imposed constraints placed on their use by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component reports net assets that do not meet the definition of either of the other two components.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

Net Patient Service Revenue

Substantially all of the Service District's net patient service revenue is earned under agreements with third-party payors. Under these agreements, the Service District provides medical services to government program beneficiaries and other third-party payers, such as health maintenance organizations, at amounts different from established rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem rates. Net patient service revenue is reported at the estimated net realizable amounts billed to patients, third-party payors, and others for services rendered. The Service District's provision for bad debts is classified as a reduction to net patient service revenue. A summary of net patient revenue for the years ended December 31, 2007 and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
Gross patient service revenue	\$ 784,798,663	\$ 778,372,643
Less discounts, allowance, and estimated contractual adjustments under third-party reimbursement programs	540,369,785	519,467,316
Less provision for bad debts	<u>19,430,889</u>	<u>35,255,036</u>
Net patient revenue	<u>\$ 224,997,989</u>	<u>\$ 223,650,291</u>

The Service District is unable to predict the future course of federal, state, and local regulation or legislation, including Medicare and Medicaid statutes and regulations. Future changes could have a material adverse effect on the future financial results of the Service District. The percentage of total gross patient service revenue derived from services furnished to Medicare and Medicaid program beneficiaries, combined, was approximately 44% in both 2007 and 2006.

Retroactive settlements are provided for in some of the governmental health care programs outlined above, based on annual cost reports. Such settlements are estimated and recorded as amounts due to or from these programs in the accompanying financial statements. The differences between these estimates and final determination of amounts to be received or paid are based on audits by fiscal intermediaries and are reported as adjustments to net patient service revenue when such determinations are made. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. No significant differences are anticipated between the estimated settlements recorded and the final settlements expected to be determined by program representatives. These adjustments resulted in increases to net patient service revenue of \$2,075,000 and \$1,958,000, respectively, in 2007 and in 2006. Estimated settlements through December 31, 2007, for the Medicaid and Medicare programs have been reviewed by program representatives, and adjustments have been recorded to reflect any revisions to the estimates.

The effect of any adjustments that may be made to cost reports still subject to review will be reported in the Service District's financial position or results of operations as such determinations are made. For the year ended December 31, 2007, the Service District recorded a receivable of \$309,000 for the current year cost report.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

Fair Value of Financial Instruments

Financial instruments are described as cash or contractual obligations or rights to pay or to receive cash. The fair value for certain financial instruments approximates the carrying value because of the short-term maturity of these instruments which include cash and cash equivalents, receivables, accounts payable, accrued liabilities, estimated third-party payor settlements, and other current liabilities. The Medical Center's investments and assets limited as to use are carried at fair value on the combined balance sheets. Based on borrowing rates currently available to the Medical Center with similar terms and maturities, the fair value of the long-term debt approximated \$169 million and \$180 million as of December 31, 2007 and 2006, respectively.

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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein. Actual results could differ from those estimates.

Recent Accounting Pronouncements

GASB Statement No. 50 Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27- This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 27, Accounting for Pensions by State and Local Governmental Employers, to conform with requirements of Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement is effective for periods beginning after June 15, 2007. The Medical Center is assessing the impact of this statement.

Pension Trust

Employer contributions are recognized as revenues in the period in which employee services are performed. The assets of the Plan are invested in various fixed income, equity and short-term money market funds managed by a trustee. Investments are carried at fair value as reported by the Trustee. Fair values are determined by quoted market prices, as available. Dividend income is recognized when earned. All administrative expenses of the Plan are paid by the Plan.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

Accumulated plan benefits are those future periodic payments, including lump-sum distributions that are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. Benefits payable under all circumstances-retirement, death, disability, and termination or employment are included, to the extent they are deemed attributable to employee service rendered to the valuation date. Benefits to be provided from annuity contracts excluded from Plan assets are excluded from accumulated Plan benefits.

The actuarial present value of accumulated plan benefits is determined by an independent actuary and is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of December 31, 2007 and 2006 were (a) life expectancy participants (1984 unisex Pension Mortality Table was used), (b) retirement age assumptions, and (c) investment return. The 2007 and 2006 valuations included assumed average rates of return of 8.0%. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

2. Cash and Investments

At December 31, 2007 and 2006, the Service District cash consisted of demand deposits with bank balances of \$15,327,129 and \$22,857,133, respectively. The cash accounts were fully secured by federal depository insurance or collateral held by agents of the Service District in its name. The composition of designated cash and investments December 31, 2007, is set forth below:

	Cash and Cash Equivalents	Investments	Total
2007			
Board-designated	\$ 27,793,443	\$ 106,427,665	\$ 134,221,108
1998 Bond Issue:			
Improvement Fund	-	198,930	198,930
Reserve Fund	-	3,660,735	3,660,735
Interest Fund	-	2,825,619	2,825,619
Total 1998 Bond Issue	-	6,685,284	6,685,284
2004A Bond Issue:			
Proceeds Expense Fund	-	2,683,502	2,683,502
Debt Service Reserve Fund	-	8,011,846	8,011,846
Improvement Fund	-	1	1
Total 2004A Bond Issue	-	10,695,349	10,695,349
2004B Bond Issue:			
Interest Fund	-	413,651	413,651
Principal Fund	-	20,213	20,213
Debt Service Fund	-	4,876,021	4,876,021
Proceeds Expense Fund	-	99	99
Total 2004B Bond Issue	-	5,309,984	5,309,984
Total carrying value (at fair value)	\$ 27,793,443	\$ 129,118,282	\$ 156,911,725

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

The composition of designated cash and investments at December 31, 2006, is set forth below:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Board-designated	\$ 2,293	\$ 123,667,772	\$ 123,670,065
1998 Bond Issue:			
Improvement Fund	-	435,837	435,837
Reserve Fund	-	3,776,890	3,776,890
Interest Fund	-	2,575,594	2,575,594
Total 1998 Bond Issue	-	6,788,321	6,788,321
2004A Bond Issue:			
Proceeds Expense Fund	-	2,566,368	2,566,368
Debt Service Reserve Fund	-	8,779,891	8,779,891
Improvement Fund	-	5,759,436	5,759,436
Total 2004A Bond Issue	-	17,105,695	17,105,695
2004B Bond Issue:			
Interest Fund	-	131,612	131,612
Principal Fund	-	4,325,000	4,325,000
Debt Service Fund	-	4,618,040	4,618,040
Proceeds Expense Fund	-	96	96
Total 2004B Bond Issue	-	9,074,748	9,074,748
Total carrying value (at fair value)	\$ 2,293	\$ 156,636,536	\$ 156,638,829

Louisiana state statutes authorize the Service District to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the state of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions. During the years ended December 31, 2007 and 2006, the Service District invested primarily in securities issued by the U.S. Treasury and other federal agencies.

Credit Risk

Per GASB 40, unless there is information to the contrary, obligations of the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. The following table presents each applicable rating grouped by investment type as of December 31, 2007:

<u>By Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>
Cash deposits, operating funds	\$ 10,415,505	Exempt from Disclosure
Cash deposits, held by Trustee	27,793,443	Exempt from Disclosure
U.S. Government securities	129,118,282	Exempt from Disclosure
Total cash and investments	<u>\$ 167,327,230</u>	

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

<u>By Balance Sheet Category</u>	<u>Fair Value</u>
Cash deposits, operating funds	\$ 10,415,505
Designated Assets:	
Under bond indenture – held by trustee	22,690,617
By Board for discretionary purposes	<u>134,221,108</u>
Total designated assets	<u>156,638,829</u>
Total cash and investments	<u>\$ 167,327,230</u>

Concentration, Credit Risk, and Custodial Credit Risk

Louisiana state statutes also require that all of the deposits of the Medical Center be protected by insurance or collateral. The market value of collateral pledged must equal 100% of the deposits not covered by insurance. The bank balances of deposits at December 31, 2007 and 2006, were fully covered by insurance or collateral held by financial institutions in the Medical Center's name.

Per GASB 40, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than five percent (5%) of the market value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. At December 31, 2007, the Medical Center had no investments requiring Concentration of Credit Risk disclosure.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Medical Center will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Medical Center will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Interest Rate Risk

Interest Rate Risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The following table summarizes the Medical Center's segmented time distribution investment maturities by investment type as of December 31, 2007 and 2006.

<u>By Investment Type</u>	<u>Fair Value</u>	<u><1 Year</u>	<u>1-5 Years</u>	<u>> 5 Years</u>
<u>2007</u>				
Cash deposits, operating funds	\$ 10,415,505	\$ 10,415,505	\$ -	\$ -
Cash deposits, held by Trustee	27,793,443	27,793,443	-	-
U.S. Government securities	<u>129,118,282</u>	<u>82,171,330</u>	<u>46,946,952</u>	-
Total cash and investments	<u>\$ 167,327,230</u>	<u>\$ 120,380,278</u>	<u>\$ 46,946,952</u>	<u>\$ -</u>

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

By Investment Type	Fair Value	<1 Year	1-5 Years	> 5 Years
2006				
Cash deposits, operating funds	\$ 13,096,494	\$ 13,096,494	\$ -	\$ -
Cash deposits, held by Trustee	2,293	2,293	-	-
U.S. Government securities	<u>156,636,536</u>	<u>115,170,574</u>	<u>38,456,291</u>	<u>3,009,671</u>
Total cash and investments	<u>\$169,735,323</u>	<u>\$ 128,269,361</u>	<u>\$ 38,456,291</u>	<u>\$ 3,009,671</u>

Pension Trust Fund

Hospital service districts are authorized under Louisiana R.S. 46:10688 to establish and maintain actuarially sound pension and retirement systems making contributions from hospital service district funds. They may make contracts of insurance with any insurance company legally authorized to do business in Louisiana and may enter into other contracts and trust agreements with banks, which are incidental to creating and maintaining an actuarially sound pension and retirement system. At December 31, 2007, the Retirement Plan's investments were held by Regions Morgan Keegan Trust. Investments at December 31, 2007 and 2006 consist of the following mutual funds which are stated at fair value.

Fixed Income:	2007	2006
Federated U.S. Government Trust Institutional Fund *	\$ 9,932,096	\$ 7,129,615
Vanguard Short-term Treasury Fund *	<u>7,245,223</u>	<u>6,715,888</u>
	<u>17,177,319</u>	<u>13,845,503</u>
Equity:		
Artisan Sm Cap Value Fund 963 Inv	1,719,018	1,828,410
Amer Cap World Growth & Inc FD CL R5*	3,878,619	3,312,124
Vanguard Institutional Index Fund*	17,505,487	18,804,635
Vanguard Mid Cap Index Fund*	<u>8,008,254</u>	<u>7,553,440</u>
	<u>31,111,378</u>	<u>31,498,609</u>
Cash equivalents:		
Cash	352,691	-
Federated Treasury Money Market Fund*	<u>6,857,950</u>	<u>6,808,805</u>
	<u>7,210,641</u>	<u>6,808,805</u>
Total investments	<u>\$55,499,338</u>	<u>\$52,152,917</u>

* represents investments that are 5% or more of the Plan's net assets.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising interest rates, the Retirement Plan's investment policy limits the maximum for any single fixed income security to 10 years. None of the investments of the Retirement Plan have fixed maturity dates.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

Credit Risk

State statutes authorize the Retirement Plan to invest in obligations of the U.S. Treasury, agencies, and instrumentalities; commercial paper rated AAA 1, 2, or 3; repurchase agreements; and the Louisiana Asset Management Pool (LAMP). The Retirement Plan's investment policy limits the Plan's investments to treasury bills, money market funds, commercial paper, U.S. government and agency securities, corporate notes and bonds, common stocks, American Depository Receipts of Non-U.S. companies listed on American exchanges, and stocks of Non- U.S. companies. As of December 31, 2007 and 2006, all investments of the Retirement Plan were rated Aaa by Moody's Investor's Service and AAA by Standard & Poor's and Fitch ratings.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Retirement Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the investments of the Retirement Plan are held in the name of the Retirement Plan for the years ended December 31, 2007 and 2006.

Concentration of Credit Risk

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of the Retirement Plan's investment in a single issuer. The Retirement Plan's investment policy states that the securities of any one company or government agency cannot exceed ten (10) percent of the total fund, and no more than twenty (20) percent of the total fund can be invested in any one industry. With the exception of U.S. Government securities, no fixed income issue may exceed fifteen (15) percent of the market value of the fixed income portfolio. No investments of the Retirement Plan are in violation of this policy at December 31, 2007 and 2006.

3. Property, Plant and Equipment

The following table summarizes the changes in net property, plant, and equipment for the year ended December 31, 2007

<u>2007</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reclassification/ Retirements</u>	<u>Ending Balance</u>
Land and Land improvements	\$ 19,921,793	\$ 971,050	\$ -	\$ 20,892,843
Building and fixed equipment	170,767,874	4,076,981	-	174,844,855
Equipment	169,694,745	12,802,993	(1,177,416)	181,320,322
Construction in progress	8,816,826	12,087,380	(7,052,948)	13,851,258
	<u>369,201,238</u>	<u>29,938,404</u>	<u>(8,230,364)</u>	<u>390,909,278</u>
Less accumulated depreciation	(214,867,965)	(17,054,663)	944,474	(230,978,154)
Property, plant, and equipment, net	<u>\$ 154,333,273</u>	<u>\$ 12,883,741</u>	<u>\$ (7,285,890)</u>	<u>\$ 159,931,124</u>

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

The following table summarizes the changes in net property, plant, and equipment for the year ended December 31, 2006:

	Beginning Balance	Additions	Reclassification/ Retirements	Ending Balance
Land and land improvements	\$ 16,835,800	\$ 3,085,993		\$ 19,921,793
Building and fixed equipment	149,328,501	23,025,671	(1,586,298)	170,767,874
Equipment	159,283,432	10,771,282	(359,969)	169,694,745
Construction in progress	23,612,046	20,585,326	(35,380,546)	8,816,826
	<u>349,059,779</u>	<u>57,468,272</u>	<u>(37,326,813)</u>	<u>369,201,238</u>
Less accumulated depreciation	(200,343,052)	(16,465,231)	1,940,318	(214,867,965)
Property, plant, and equipment, net	<u>\$ 148,716,727</u>	<u>\$ 41,003,041</u>	<u>\$ (35,386,495)</u>	<u>\$ 154,333,273</u>

The Service District leases certain major movable and other nonmovable equipment under operating leases, some of which are on a month-to-month basis and others which are on a longer-term basis. Refer to Note 10 for amounts relating to these leases. Rental expense for leased equipment amounted to approximately \$1,406,000 in 2007 and \$1,785,000 in 2006.

Construction in progress includes projects such as technical and property infrastructure upgrades as well as software and equipment upgrades. In May 2007, one of the Medical Center's bond insurers directed, under the terms of the trust indenture, that a springing mortgage be recorded on substantially all of the Medical Center's property and equipment.

4. Risk Management

The Service District participates in the State of Louisiana patient compensation fund (the Fund). The Fund provides malpractice coverage to the Service District for claims in excess of \$100,000 up to \$500,000. According to current state law, medical malpractice liability (exclusive of future medical care awards) is limited to \$500,000 per occurrence. Service District management has no reason to believe that the Service District will be prevented from continuing its participation in the Fund.

From July 1, 1993 to November 1, 1997, the Service District was insured by the LHA Trust Fund for medical malpractice claims. Subsequent to November 1, 1997, the Service District has maintained a funded self-insured program against medical malpractice claims and purchased excess general liability coverage up to \$10 million with a \$2 million self-retention. The Service District is involved in litigation arising in the ordinary course of business. Claims alleging malpractice liability have been asserted against the Service District and are currently in various states of litigation. The Service District has accrued approximately \$4,098,000 and \$5,311,000 at December 31, 2007 and 2006, for the estimated loss and litigation expenses related to medical malpractice claims for which the Service District is self-insured. Claims have been filed alleging damages in excess of the amount accrued for estimated malpractice costs. It is the opinion of management that estimated malpractice costs accrued are adequate to provide for probable losses resulting from pending or threatened litigation. Additional claims may be asserted against the Service District arising from services provided to patients through December 31, 2007. The Service District is unable to determine the ultimate cost of the resolution of such potential claims; however, an accrual has been made based on estimates for these claims.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

The Service District is self-insured for workers' compensation up to \$500,000 per claim and is self-insured for employee group health insurance claims. The Service District purchased commercial insurance that provides coverage for workers' compensation claims in excess of the self-insured limits. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are re-evaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors. The following table summarizes the changes in the Service District's aggregate claims liability for medical malpractice, workers' compensation, and health insurance.

Year Ended December 31	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2007	\$9,123,798	\$11,516,540	\$11,363,126	\$9,277,212
2006	\$5,330,140	\$12,891,639	\$9,097,981	\$9,123,798

5. Long-Term Debt

Long-term debt consisted of the following as of December 31:

	<u>2007</u>	<u>2006</u>
Hospital Revenue Bonds (Series 1998A); 4% - 5.25%; due in installments through 2021	\$ 32,725,000	\$ 34,420,000
Hospital Revenue Bonds (Series 1998B); variable interest rate (ranging from 3.13% - 3.97% in 2007 and 2.96% - 4.00% in 2006); due in installments, beginning in 2022 through 2028	25,000,000	25,000,000
Hospital Revenue Bonds (Series 2004A); 5.85%; due in installments, beginning in 2025 through 2034	81,410,000	81,410,000
Hospital Revenue Bonds (Series 2004B); variable interest rate (ranging from 2.75% - 4.25% in 2007, 2.51% - 3.70% in 2006); due in installments through 2018	28,800,000	37,600,000
Special Community Disaster Loan; interest accrues at 2.74%; principal and interest due in total in 2011	30,712,500	30,712,500
Total	<u>198,647,500</u>	<u>209,142,500</u>
Less unamortized original issue discount	(1,157,218)	(1,253,647)
Less current maturities	<u>(1,780,000)</u>	<u>(6,020,000)</u>
Long-term debt, less current maturities	<u>\$ 195,710,282</u>	<u>\$ 201,868,853</u>

For the years ended December 31, 2007 and 2006, interest expense, before interest income from trustee-held assets of approximately \$1,240,000 and \$1,556,000, respectively, totaled \$8,208,467 and \$7,699,315.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

The changes in long-term debt were as follows:

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 209,142,500	\$ 179,890,000
Issuances	-	30,712,500
Payments	(10,495,000)	(1,460,000)
Balance, end of year	<u>\$ 198,647,500</u>	<u>\$ 209,142,500</u>

The debt service requirements at December 31, 2007, were as follows:

	<u>Principal</u>	<u>Interest</u>
2008	\$ 1,780,000	\$ 8,188,223
2009	6,495,000	7,956,543
2010	6,740,000	7,713,230
2011	34,732,500	11,949,854
2012	4,205,000	7,333,376
2013 – 2017	22,510,000	33,955,798
2018 – 2022	18,875,000	29,452,611
2023 – 2027	30,770,000	24,773,795
2028 – 2032	48,890,000	14,265,483
2033 – 2035	23,650,000	1,402,830
Total long-term debt	<u>\$ 198,647,500</u>	<u>\$ 146,991,743</u>

Series 1979 Bonds

The Series 1979 bonds were advance refunded in 1985. A portion of the proceeds from a subsequent bond issuance was deposited with an escrow trustee and invested in obligations secured by the U.S. government. The principal and interest income from these invested funds is used to service the debt of the refunded issue. Neither the escrow fund nor the Series 1979 bonds payable are shown in the accompanying Balance Sheets. Series 1979 bonds payable outstanding were \$6,075,000 and \$9,010,000 at December 31, 2007 and 2006, respectively.

Interest Rate Swaps

To take advantage of lower rates of interest, the Medical Center has entered into interest rate swap agreements, as described below, with a major financial institution (the "counterparty"). The agreements are part of a Master Agreement dated August 16, 2004 between the Medical Center and the counterparty. In addition, the agreements incorporate the 2000 International Swap Dealers Association ("ISDA") Master Agreement which includes defined terms and provisions.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

Series 1998B Bonds

In November 2004, the Medical Center entered into a floating-to-fixed interest rate swap agreement on the Series 1998B variable-rate bonds. The swap agreement has a notional amount of \$25,000,000. Under the terms of the agreement, which matures on January 1, 2012, the Medical Center pays to the counterparty on January 1st and July 1st fixed interest at the rate of 3.10% and receives from the counterparty a variable rate, paid quarterly, calculated as 68% of the one-month London Interbank Offer Rate (LIBOR) plus or minus the variable bond rate based on the Bond Market Association Municipal Swap Index (BMA). At December 31, 2007 the fair value of this agreement was \$482,964. The net effect of the swap transaction in 2007 was a reduction in the Medical Center's Series 1998B interest expense of \$137,906.

In August 2006, the Medical Center entered into a basis swap agreement which matures on January 1, 2012. The swap agreement has a notional amount of \$25,000,000. Under the terms of this agreement, the Medical Center pays the counterparty on the 1st of each quarter a variable rate computed as 68% of the one-month LIBOR rate and receives from the counterparty 61.75% of the five-year LIBOR rate plus or minus the variable bond rate based on the BMA Swap Index. At December 31, 2007 the fair value of this agreement was \$171,727. The net effect of the swap transaction in 2007 was an increase in the Medical Center's Series 1998B interest expense of \$107,048. The swap agreements on the 1998B bonds are subject to terms that require either party to post additional collateral based on the change in interest rates, the mark-to-market valuation of the swap agreements and/or change in credit rating of either party. At December 31, 2007, the mark-to-market on the November 2004 swap transaction resulted in collateral requirements of \$311,237 which the Medical Center had posted with the counterparty.

Series 2004A Bonds

In August 2004, the Medical Center entered into a fixed-to-floating total return interest rate swap agreement which matures on December 1, 2008. The swap agreement has a notional amount equal to the total bonds issued of \$81.4 million. Under the terms of the agreement, the Medical Center pays the 5.85% fixed rate semi-annual bond coupon payments. The counterparty returns to the Medical Center the 5.85% fixed rate on the bonds. The Medical Center pays the counterparty a semi-annual variable rate of interest computed as BMA plus 70 basis points. The net effect of the swap transaction in 2007 was a decrease in the Medical Center's Series 2004A interest expense of \$1,237,575. At December 31, 2007 the 2004A swap agreement had a fair value of \$1,022,084. The swap agreement on the 2004A bonds is subject to terms that require either party to post additional collateral based on the change in interest rates, the mark-to-market valuation of the swap agreements and/or change in credit rating of either party. At December 31, 2007, the mark-to-market on the 2004A swap transaction resulted in the counterparty having to post collateral for the fair value noted above.

Series 2004B Bonds

In August 2004, the Medical Center entered into a floating-to-fixed interest rate swap agreement which matures on January 1, 2017. The notional amount of the bonds was \$39.2 million. Under the terms of this agreement, the Medical Center pays semi-annually to the counterparty a fixed rate of 3.35% and receives from the counterparty a variable rate, paid monthly, calculated as 68% of the one-month LIBOR plus or minus the variable bond rate based on The Bond Market Association Municipal Swap Index (BMA). At December 31, 2007 the fair value of this agreement was \$463,339. The net effect of the swap transaction in 2007 was a decrease in the Medical Center's Series 2004B interest expense of \$173,655. In August 2006, the Medical Center entered into a basis swap agreement which matures on January 1, 2017. The notional amount of the bonds was \$33.3 million and declines each year until the maturity date.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

Under the terms of this agreement, the Medical Center pays monthly to the counterparty a variable rate computed as 68% of the one-month LIBOR and receives monthly from the counterparty a variable rate calculated as 61.72% of the five-year LIBOR rate plus or minus the variable bond rate based on the BMA Swap Index. At December 31, 2007 the fair value of this agreement was \$141,267. The net effect of the swap transaction in 2007 was an increase in the Medical Center's Series 2004B interest expense of \$141,727.

The swap agreement on the 2004B bonds is subject to terms that require either party to post additional collateral based on the change in interest rates, the mark-to-market valuation of the swap agreements and/or change in credit rating of either party. At December 31, 2007, the mark-to-market on the 2004B swap transaction resulted in the counterparty having to post collateral for the fair value noted.

Community Disaster Loan

The Medical Center was granted a Community Disaster Loan (the "Loan") from the federal government. The Loan proceeds, in the amount of approximately \$31 million, were received by the Medical Center on February 22, 2006. The terms of the Loan call for interest to accrue at 2.74% annually to be repaid with the principal when the Loan becomes due in 2011. At December 31, 2007 the Medical Center had accrued \$1,560,272 of interest expense on the Loan.

Debt Compliance

As of December 31, 2006, due to the losses recorded in 2006 as a result of Hurricane Katrina, the Medical Center was not in compliance with debt coverage ratio covenants under the terms of the 1998 and 2004 series bonds and the interest rate swap agreements on the 1998B, 2004A and 2004B series bonds. The Medical Center obtained from its bond insurers agreements to forbear from the exercise of their respective rights and remedies available as a result of the occurrence and continuance of the Identified Defaults through January 1, 2008. In addition, the Medical Center obtained waivers of debt coverage ratio noncompliance on the 1998B, 2004A and 2004B Series bonds through June 30, 2007 from the interest rate swap counterparty. As of December 31, 2007, the Medical Center was in compliance with its debt covenants. In May 2007, one of the Medical Center's bond insurers directed, under the terms of the trust indenture, that a springing mortgage be recorded on substantially all of the Medical Center's property and equipment.

Subsequent Activity

The \$28.8 million of 1998B variable rate bonds are auction rate securities under which the variable interest rates are set through weekly auctions. As a result of the collateralized debt obligation (CDO) issue that affected the financial markets in the first quarter of 2008, auctions of auction rate securities could not be successfully completed. While the Medical Center's auction rate securities have no connection to the CDO issue, the weekly auctions of the 1998B bonds were similarly impacted by the issue which caused the 1998B auctions to be unsuccessful. The variable interest rates on the 1998B bonds are based on the 30-day Telerate/BBA LIBOR rate, which was 2.716% at April 15, 2008. The auction terms indicate that should the auctions not be successfully completed, the interest rates could increase to a maximum of two times the base rate noted above. The Medical Center cannot predict the impact of the auction rates in 2008 should the weekly auctions of the 1998B bonds continue to be unsuccessful.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

6. Community Benefits (Unaudited)

Services provided to the indigent and benefits provided to the broader community by the Medical Center are summarized below for the years ended December 31:

	<u>2007</u>	<u>2006</u>
Benefits for the indigent and uninsured (unpaid costs):		
Traditionally charity care and uninsured	\$ 9,688,733	\$ 16,892,121
Benefits for the broader community:		
Unpaid costs of Medicare and Medicaid programs	18,102,491	20,116,797
Other community benefits	<u>3,046,433</u>	<u>3,007,783</u>
Total quantifiable benefits for the broader community	<u>\$30,837,657</u>	<u>\$ 40,016,701</u>

Benefits for the indigent include services provided to persons who cannot afford health care because of inadequate resources or who are uninsured. This amount includes the estimated costs of services associated with traditional charity care and other services such as emergency room services.

Benefits for the broader community include the unpaid cost of treating Medicare and Medicaid beneficiaries in excess of the government payments. These benefits also include services provided to other needy populations that may not qualify as indigent but that require special services and support. Examples include the cost of health promotion and education, an assistance program for the elderly, health clinics and screenings, special assessments by the Parish to fund MITs, health care for the Parish correctional center, and funding assistance for a nonprofit community clinic, all of which, in management's opinion, benefit the broader community.

7. Governmental Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes, and regulations by health care providers in recent years. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Service District is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations. However, assessment of our compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

Legislation and regulation at all levels of government have affected and are likely to continue to affect the operation of the Service District. Federal health care reform legislation proposals debated in Congress in recent years have included significant reductions in Medicare and Medicaid program reimbursement to hospitals and the promotion of a restructured delivery and payment system focusing on competition among providers based on price and quality, managed care, and steep discounting or capitated payment arrangements with many, if not all, of the Service District's principal payers. It is not possible at this time to determine the impact on the Service District of government plans to reduce Medicare and Medicaid spending, government implementation of national and state health care reform, or market-initiated delivery system and/or payment methodology changes. However, such changes could have an adverse impact on operating results, cash flows, and estimated debt service coverage of the Service District in future years.

8. Employee Benefits

The Retirement Plan for Employees of West Jefferson Medical Center

West Jefferson Medical Center operates under the jurisdiction of the Parish Council of Jefferson Parish, Louisiana (the "Parish") as Jefferson Parish Hospital Service District No. 1. A Louisiana Attorney General opinion empowers hospital service districts to create pension plans for officers and employees and to fund the plan with district funds.

The Retirement Plan for Employees of West Jefferson Medical Center (the "Plan") is a single-employer, non-contributory, defined public employee retirement system (PERS). The Plan covers certain employees of West Jefferson Medical Center (the Employer) who met certain length of service requirements through December 31, 2005 and is funded through employer contributions and investment earnings.

Plan Description

The Medical Center contributes to the Retirement Plan for Employees of West Jefferson Medical Center (the Plan). No new entrants were allowed to participate in the plan after December 31, 2005. As a governmental entity, the Plan provides disclosures required by the Governmental Accounting Standards Board (GASB).

The Medical Center's total payroll for all employees and the total covered payroll for the year ended December 31, 2007, amounted to approximately \$91,741,000 and \$49,735,000, respectively, and \$89,896,000 and \$58,109,000, respectively, for the year ended December 31, 2006. Covered payroll refers to all compensation paid by the Medical Center to active employees covered by the Plan on which contributions to the Plan are based.

	<u>2007</u>	<u>2006</u>
Active employees	919	1,128
Retirees and beneficiaries currently receiving benefits	712	667
Terminated vested participants	462	368
Total plan membership*	<u>2,093</u>	<u>2,163</u>

*The total retirees and beneficiaries count of 462 includes 67 participants who, under an amendment to the Plan effective November 1, 2007, elected enhanced early retirement benefits under the Voluntary Retirement Incentive Program (VRIP) with effective retirement dates ranging from January 1, 2008 to April 1, 2008. See "Plan Amendments" discussed below.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

Eligibility Requirements

An employee is eligible to participate in the Plan as of the date they have completed one year of service of 1,000 hours or more and attained at the age of 21. No new entrants are allowed to participate in the Plan after December 31, 2005.

Benefits Retirement

The Plan provides retirement benefits as well as death and disability benefits. Prior to July 1, 2002, all benefits were fully vested after 10 years of credited service. Effective July 1, 2002, all employees become fully vested after 5 years of credited service. The basic annual retirement benefit at age 65 is a benefit payable for life in an amount equal to the number of years of credited service up to 30 years, multiplied by the sum (1) 1.2 percent of final average monthly compensation (2) 0.65 percent of final average monthly compensation in excess of "covered" compensation," which is defined as the average of the Social Security Taxable Wage Base for the 35-year period ending in the year in which social security normal retirement age is attained. Final average monthly compensation is defined as the monthly compensation of a participant averaged over the 5 consecutive calendar years which produces the highest monthly average within the last 10 calendar years preceding the earlier of retirement or termination of employment. Employees with 10 years of credited service may elect to receive a reduced benefit beginning at age 55.

Deferred and Disability Benefits

A Plan member leaving employment after 10 years of credited service but before attaining retirement age or who ceases active employment because of total and permanent disability after 10 years of credited service but before attaining retirement age is eligible for deferred benefits or may elect to receive reduced benefits at age 55.

Survivor Benefits

The survivor benefit provided under the Plan is a death benefit for a vested participant in the form of survivor annuity. Such annuity payments are generally equal to 50 percent of the amount which would be payable to the participant if he or she had survived and elected to commence receiving a retirement income at the earliest date allowed under the Plan.

Contributions

The employer is required to contribute amounts necessary to provide the benefits under the Plan determined by the application of accepted actuarial methods and assumptions.

Plan Termination

The Medical Center has the right under the Plan to discontinue its contributions at anytime and to terminate the Plan. See further discussion below under "Plan Amendment."

Contributions Required and Contributions Made

The funding policy of the Plan for periodic employer contributions at actuarially determined rates that are sufficient to pay benefits when due. The actuarial funding method used to determine the normal cost and the unfunded actuarial accrued liability, amortized over 30 years, for purposes of determining contribution requirements is the entry age normal cost method. The significant actuarial assumptions underlying the actuarial method used to compute the contribution requirement are the same as those used to compute the pension benefit obligation.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

The actuarially determined contribution requirement for 2007, accrued by the Plan, is \$1,864,390. The actual contribution paid by the employer during 2007 relating to the 2006 contribution requirement was \$2,123,511. The 2007 contribution requirement consists of (a) \$1,044,753 normal cost, (b) \$681,534 amortization of the unfunded actuarial accrued liability and (c) \$138,103 net interest cost. The actuarially determined contribution requirement for 2006, accrued by the Plan, was \$2,123,511. The 2006 contribution requirement consists of (a) \$951,233 normal cost, (b) \$1,014,981 amortization of the unfunded actuarial accrued liability and (c) \$157,297 net interest cost. The actual contribution paid by the employer during 2006 relating to the 2005 contribution requirement was \$2,739,608.

Funding Status

The amount shown below as pension benefit obligation, determined as part of an actuarial valuation as of January 1, 2007, represents a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits. The following is a summary for the changes in the actuarial present value of accumulated plan benefits for the years ended December 31, 2007:

Annual pension cost and net pension obligation:	
Annual required contribution	\$1,864,390
Contribution made (related to prior year obligations)	<u>(2,123,511)</u>
Decrease in net pension obligation	(259,121)
Net pension obligation, beginning of year	<u>2,123,511</u>
Net pension obligation, end of year	<u><u>\$1,864,390</u></u>

Significant actuarial assumptions used in the valuation include a rate of return on the investment of present and future assets of 8% per year, compounded annually, and projected salary increases based on merit of 3% per year compounded annually.

Changes in Accumulated Plan Benefits

The following is a summary of the changes in the actuarial present value of accumulated plan benefits for the years ended December 31:

	2007	2006
Actuarial present value of accumulated plan, benefits at beginning of year	<u>\$ 53,840,766</u>	<u>\$ 49,405,401</u>
Increase (decrease) attributable to:		
Benefits accumulated, including actuary loss	2,423,270	2,874,005
Assumed interest from beginning of year	4,209,913	3,862,170
Benefits paid	(2,481,440)	(2,300,810)
Plan Amendments	<u>7,154,444</u>	<u>-</u>
Net increase	<u>11,306,187</u>	<u>4,435,365</u>
Actuarial present value of accumulated plan benefits at end of year	<u><u>\$ 65,146,953</u></u>	<u><u>\$ 53,840,766</u></u>

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

Trend Information

Historical trend information as of January 1 is presented below to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension</u>
December 31, 2007	\$1,864,390	100%	\$1,864,390
December 31, 2006	\$2,123,511	100%	\$2,123,511
December 31, 2005	\$2,739,608	100%	\$2,739,608

The 2007 audited financial statements of the Plan include certain required supplementary information related to net actuarial value of assets and accrued liabilities, funded ratios, and annual covered payroll.

Tax Qualification

The Plan is a tax qualified plan under IRS Code Section 401(a).

Plan Amendments

In 2005, the Medical Center adopted a change to the Plan that amends the Plan effective January 1, 2006. The change freezes participation after December 31, 2005 (no new participants) and offer active participants as of January 1, 2006 a one-time irrevocable election to either (1) freeze their benefits under the Plan as of December 31, 2005, with no future accruals but with enhanced benefits available under a new 403(b) Defined Contribution Plan (the "new Defined Contribution Plan"), or (2) continue further accruals under the Plan after December 31, 2005, but without the enhanced benefits otherwise available under the new Defined Contribution Plan (see below).

In 2007, the Medical Center adopted an amendment to the new Defined Contribution Plan effective November 1, 2007. The change provides enhanced retirement benefits to eligible participants electing retirement under the Voluntary Retirement Incentive Program (VRIP) by December 17, 2007. Participants age 55 or older with at least 20 years of credited service by December 31, 2007 were granted the most favorable combination of 10 total additional years of age and service (with a forty year service cap) if they retired under the VRIP with an approved retirement date ranging from January 1, 2008 to April 1, 2008. Of a total of 119 eligible employees, 67 participants elected to accept enhanced retirement benefits under the VRIP. The Plan's actuarial accrued liability increased \$5,903,534 as a result of these elections under the VRIP.

Other Benefits

The Medical Center provides a supplemental executive retirement plan (SERP) as well as a contributory flexible benefit plan to certain key employees. The Medical Center's contribution to the plan in 2006 was \$146,000 while 2007 reflected a credit of approximately \$964,000 due to forfeitures of unvested executive supplemental pension benefits. Net assets and liabilities associated with the plans were approximately \$203,000 and \$1,298,000 at December 31, 2007 and 2006, respectively, and are included in noncurrent assets and noncurrent liabilities in the accompanying combined financial statements.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

Defined Contribution 403(b) Plan

All new employees after December 31, 2005 and any new employees who elected out of the Plan (see above) are eligible to join the Medical Center's new Defined Contribution 403(b) Plan. Employer contributions to the 403(b) plan totaled \$1,445,945 and \$1,132,793 for the year ended, December 31, 2007, and 2006, respectively. New employees are immediately eligible to make pre-tax contributions to the plan and receive employer matching contributions. To receive the employer annual non-discretionary contribution based on years of service, employees must complete at least 12 months of service and 1,000 hours by December 31st of the current plan year.

9. Concentrations of Credit Risk

The Service District grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables due from patients and third-party payers was as follows:

	December 31	
	2007	2006
Medicare	20 %	19 %
Medicaid	11 %	9 %
Managed care	51 %	51 %
Other	13 %	15 %
Self-pay	5 %	6 %
	100 %	100 %

10. Operating Leases and Subsequent Events

The Service District has entered into several long-term operating leases. The future commitments resulting from these leases are as follows:

2008	\$	971,065
2009		604,100
2010		494,671
2011		365,132
2012		365,132
Thereafter		62,665
	\$	2,862,765

Subsequent to year end, the Medical Center sold the assets of its home health and hospice operations for a nominal gain.

11. Related Parties

The Service District paid no amounts to members of its board of directors for compensation or per diem in 2007 and 2006. Board members are provided health insurance benefits under the Medical Center's health insurance plan.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

12. Effects of Hurricane Katrina

As a direct result of Hurricane Katrina, the Service District incurred an estimated \$1.9 million of facility and equipment damage and incurred approximately \$5.2 million in additional incremental expenses. While the Service District carries both business interruption and property damage insurance, due to insurance coverage limitations the Service District may not be reimbursed in total under its casualty and business interruption insurance coverage. The Service District engaged outside consultants to assist with preparing claims under both types of coverage. At December 31, 2006 the Service District had not received any reimbursement from its property damage or business interruption coverage and did not record any amounts that might be received under these coverages.

On August 18, 2006 the Service District initiated legal proceedings in U.S. District Court, Eastern District of Louisiana, against its business interruption insurance carrier seeking to recover amounts the Service District believes it is due under its business interruption coverage. In August 2007, the Service District settled its outstanding business interruption and property damage insurance claims resulting from Hurricane Katrina. The Service District received payments of approximately \$5.1 million to settle these claims. As a result of the settlement, the Service District released its claims against its insurer and dismissed the litigation initiated in August 2006. Of the settlement amount, approximately \$4.8 million was included in other operating revenues and approximately \$300,000 included as other current liabilities as the amount was due to a third party at December 31, 2007.

The Service District also engaged consultants to assist it in submitting requests for reimbursement to the Federal Emergency Management Agency ("FEMA") for those qualifying expenses that, due to insurance coverage limitations, may not be reimbursed under its casualty or business interruption insurance. In 2006, the Service District received approximately \$1.5 million of reimbursements from FEMA, the majority of which was recorded as other non-operating income. At December 31, 2006 the Service District recorded a \$381,000 receivable for amounts FEMA reimbursed in early 2007. For the remainder of 2007, the Service District received approximately \$172,000 from FEMA covering reimbursement for property damages not covered by insurance. At December 31, 2007, the Service District was advised that approximately \$1.5 million of reimbursements were to be received from FEMA in early 2008 and recorded this amount as a receivable and as other non-operating income. In addition, the Service District recorded a receivable of \$148,000 representing amounts expended on projects for which FEMA has obligated funding. The Service District continues to work with FEMA to obtain any remaining reimbursements and has not recorded any other amounts that may be received from FEMA as recovery is not certain.

The Service District was granted a Community Disaster Loan (the "Loan") from the federal government. The Loan proceeds, in the amount of approximately \$31 million, were received by the Service District on February 26, 2006. The terms of the Loan call for interest to accrue at 2.74% annually to be repaid with the principal when the Loan becomes due in 2011. At December 31, 2007 the Service District had accrued approximately \$1.6 million of interest on the Loan.

13. Restatement

The Medical Center identified an error in the gross patient receivables as previously recorded. This error resulted in a restatement which reduced receivables and unrestricted net assets by approximately \$8.8 million as of December 31, 2005.

**JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1
RETIREMENT PLAN FOR EMPLOYEES OF
WEST JEFFERSON MEDICAL CENTER
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
December 31, 2001 through 2007**

Year	Annual Required Contribution	Percentage Contributed
2007	\$ 1,864,390	100%
2006	\$ 2,123,511	100%
2005	\$ 2,739,608	100%
2004	\$ 2,483,379	100%
2003	\$ 1,980,141	100%
2002	\$ 1,577,881	100%
2001	\$ 1,016,964	100%

**SCHEDULE OF FUNDING PROGRESS
December 31, 2001 through 2007**

(1) Actuarial Valuation Date	(2) Actuarial Value of Assets (AVA)	(3) Actuarial Accrued Liability (AAL)	(4) Actuarial Accrued (Prefunded) Liability (UAAL) (3)-(2)	(5) Funded Ratio (2)/(3)	(6) Annual Covered Payroll	(7) UAAL as a Percent of Payroll (4)/(6)
01/01/08	\$ 57,248,337	\$ 73,017,274	** \$ 15,768,937	78.4%	\$ 49,734,574	31.7%
01/01/07	\$ 54,358,247	\$ 62,644,610	\$ 8,286,363	86.8%	\$ 58,108,577	14.3%
01/01/06	\$ 45,636,913	\$ 57,977,462	\$ 12,340,549	78.7%	\$ 61,076,105	20.2%
01/01/05	\$ 43,037,997	\$ 56,595,243	\$ 13,557,246	76.0%	\$ 62,387,862	21.7%
01/01/04	\$ 40,899,923	\$ 52,037,852	\$ 11,137,929	78.6%	\$ 60,701,967	18.3%
01/01/03	\$ 36,200,000	\$ 51,120,377	\$ 14,920,377	70.8%	\$ 48,455,441	30.8%
01/01/02	\$ 39,700,000	\$ 45,712,387	\$ 6,012,387	86.8%	\$ 44,903,940	13.4%
01/01/01	\$ 41,300,000	\$ 42,020,625	\$ 720,625	98.3%	\$ 42,532,749	1.7%

** Reflects increase in Actuarial Accrued Liability of \$5,903,534 due to retirement of 67 participants with enhanced benefits under the Voluntary Retirement Incentive Program (VRIP).

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the preceding required supplementary scheduled was determined as part of the actuarial valuations dates indicated. Additional information as of the latest valuation follows:

Valuation date	January 1, 2008
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	3.00%
Projected social security increase	3.00%
Cost of living adjustment	None

See independent auditors' report.

WEST JEFFERSON MEDICAL CENTER

FINANCIAL STATEMENTS

DECEMBER 31, 2007 and 2006



A Professional Accounting Corporation

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WEST JEFFERSON MEDICAL CENTER

FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

CONTENTS

	<u>Page</u>
Report of Independent Auditors	2
Management's Discussion and Analysis (required supplementary information)	4
Basic Financial Statements	
Government-Wide Financial Statements – Enterprise Fund:	
Balance Sheets	24
Statements of Revenues, Expenses, and Changes in Net Assets	26
Statements of Cash Flows	27
Fund Financial Statements – Fiduciary Fund:	
Statement of Plan Net Assets	29
Statement of Changes in Plan Net Assets	30
Notes to Basic Financial Statements	31
Required Supplementary Information under GASB Statement No. 25	55

Report of Independent Auditors

The Board of Directors
West Jefferson Medical Center

We have audited the accompanying basic financial statements of West Jefferson Medical Center (the Medical Center), a component of the Jefferson Parish Hospital Service District No. 1, as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the pension trust fund and required supplementary information schedule as described in note 1 to the financial statements. Those financial statements were audited by other auditors whose report thereon which were furnished to us, and our opinion, herein, insofar as it relates to the amounts included for the pension trust fund, is based upon the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Medical Center's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center'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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As described in note 13, the Medical Center restated net assets as of December 31, 2005 related to an adjustment in the amount of gross patient receivables previously recorded.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2008 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit

The management's discussion and analysis on pages 4 through 23 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Postlethwaite & Netterville

Metairie, Louisiana
April 18, 2008

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007 AND 2006

This section of West Jefferson Medical Center's (the Medical Center) annual financial report provides important background information and management's analysis of the Medical Center's financial performance during the years ended December 31, 2007 and 2006. Please read this section in conjunction with the basic financial statements beginning on page 24 and the notes to the basic financial statements beginning on page 31 in this report.

FINANCIAL HIGHLIGHTS

Medical Center - Financial Highlights for the Year Ended December 31, 2007

Fiscal year 2007 was a year of continuing progress for the Medical Center as it moved forward in its recovery from the effects of Hurricane Katrina that hit the gulf coast on August 29, 2005. The Medical Center was one of only three hospitals open in the entire New Orleans metropolitan area during the hurricane and the only one open on the West Bank at the time. As a direct result of the hurricane's impact on the region's health care resources, in late 2005 and 2006 the Medical Center, along with other area hospitals, experienced a dramatic increase in the volume of uninsured patients seeking services. The Medical Center continues its efforts to work with the State of Louisiana (the State) to obtain funding for the increased volume of uninsured patients and to work with the federal government to secure funding for the increase in labor costs that would not otherwise be reimbursed through the Medicare wage index until 2009 at the earliest.

During 2007, the Medical Center received approximately \$11.7 million of funding from the State to partially offset some of its uncompensated care costs. Of this amount, \$5.7 million is reflected in 2007 operating results while \$6.0 million was recorded as a receivable at December 31, 2006. At December 31, 2007, the Medical Center recorded a receivable of approximately \$2.5 million representing one-half of an initial \$4.9 million in State funding for the State's 2008 fiscal year. The \$4.9 million was received in February 2008. Also in 2007 the Medical Center recorded \$3.7 million of Medicare wage index grant funding which partially offset the increased labor costs since the hurricane as noted above. Total amounts from State and federal funding reflected in 2007 operating results were approximately \$11.9 million compared to approximately \$16.8 million in 2006. Overall, these payments represent only a partial recovery of actual costs incurred.

In August 2007, the Medical Center settled its business interruption and property damage insurance claims resulting from Hurricane Katrina. The Medical Center received approximately \$5.1 million to settle these claims. As a result of the settlement, the Medical Center released its claims against its insurer and dismissed the litigation initiated in August 2006. Of the settlement amount, approximately \$4.8 million was recorded as other operating revenue and approximately \$300,000 is recorded as a liability owed to the federal government.

The Medical Center continues to work with the Federal Emergency Management Agency (FEMA) to submit claims for reimbursement for qualifying expenses that, due to insurance coverage limitations, were not reimbursed under its casualty or business interruption insurance policies. In 2007, the Medical Center received approximately \$691,000 of reimbursement for its incurred expenses and recorded a receivable of approximately \$1.7 million at December 31, 2007, of which \$1.5 million was received in January and February 2008.

In February 2006, the Medical Center was granted a \$30.7 million Community Disaster Loan (the Loan) from the federal government. The terms of the Loan call for interest to be accrued at 2.74% annually which is to be repaid with the principal when the Loan becomes due in 2011. In 2007, Congress passed legislation which included the forgiveness of the Loan. However, to date no process has been established to apply for the Loan forgiveness. For fiscal year 2007, the Medical Center recorded accrued interest expense of approximately \$841,000 on the Loan; total accrued interest as of December 31, 2007 was \$1.6 million.

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006

The following summarizes the Medical Center's financial highlights for the year ended December 31, 2007:

- Operating results improved in 2007 over 2006, with the Medical Center recording operating income of \$1.2 million compared to an operating loss of \$11.5 million for the prior year. Included in the 2007 results are the State and Medicare wage index grants and the settlement of business interruption and property damage claims noted above. Without these amounts, the Medical Center would have recorded an operating loss of approximately \$15.6 million and \$28.3 million in 2007 and 2006, respectively.
- The Medical Center reported total revenues in excess of expenses of \$8.8 million in 2007 compared to expenses in excess of revenues of \$9.9 million in 2006.
- The Medical Center recorded an increase in net patient revenue of just under 1% in 2007 compared to 2006.
- The Medical Center had positive cash flow from operations and earnings on investments, offset by capital expenditures and payments on debt resulting in a net change in cash and cash equivalents of \$620,350, as compared to 2006 which had a net change in cash and cash equivalents of \$6.0 million. The reason for the increase in 2006 was the proceeds from the Community Disaster Loan of approximately \$31 million offset by net cash used in operations and capital expenditures.
- Through its recruitment and retention efforts, the Medical Center reduced contract nursing expenses by 52% in 2007 compared to the prior year. The Medical Center also partnered with Our Lady of the Lake College School of Nursing to implement an on-site accelerated nursing degree program. The program, which began in January 2008, provides tuition and a stipend to students with undergraduate degrees who desire to become registered nurses. In exchange for the tuition and stipend the graduates agree to work as registered nurses at the Medical Center for three years after graduation from the program.

Medical Center - Financial Highlights for the Year Ended December 31, 2006

Fiscal 2006 was a recovery year for the Medical Center in the aftermath of Hurricane Katrina that hit the gulf coast on August 29, 2005. Because the Medical Center was only one of three hospitals open in the entire New Orleans metropolitan area during the hurricane and the only one open on the West Bank its patient revenues were impacted with a substantial increase in charity care and self-pay patients.

As a direct result of the hurricane's impact on the region's health care resources, the Medical Center, along with other Louisiana hospitals, experienced a dramatic increase in the volume of uninsured patients seeking services. During 2006, the Medical Center received approximately \$10.8 million of funding through the State of Louisiana to partially offset some of its uncompensated care costs. At December 31, 2006, the Medical Center recorded a receivable of \$6 million for additional amounts that were received from the State of Louisiana in 2007. These payments are only a partial recovery of actual costs incurred.

At December 31, 2006, the Medical Center had repaid accelerated payments received from Medicare; Medicaid accelerated payments were repaid in 2005. Also as part of its recovery efforts, the Medical Center was granted a \$30.7 million Community Disaster Loan (the Loan) from the federal government. The terms of the Loan call for interest to be accrued at 2.74% annually to be repaid with the principal when the Loan becomes due in 2011.

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006

The Medical Center worked with insurers and consultants on finalizing business interruption and property damage insurance and is in the process of submitting insurance claims under both coverages. In addition, the Medical Center also worked with its consultants to submit claims for reimbursement to the Federal Emergency Management Agency (FEMA) for those qualifying expenses that, due to insurance coverage limitations, may not be reimbursed under its casualty or business interruption insurance. At December 31, 2006, the Medical Center had not recorded any amounts that may be received from its insurance coverages as the amounts were not estimable and recovery not certain.

At December 31, 2006 the Medical Center had not received any reimbursement from its property damage or business interruption coverage and did not record any amounts that might be received under these coverages. On August 18, 2006 the Medical Center initiated legal proceedings in U.S. District Court, Eastern District of Louisiana, against its business interruption insurance carrier seeking to recover amounts the Medical Center believes it is due under its business interruption coverage. Discovery began in the first quarter of 2007. While the Medical Center recorded a \$381,000 receivable from FEMA at December 31, 2006, as the Medical Center was advised of the amount to be received, the Medical Center has not recorded any other amounts that may be received from FEMA as the amounts are not estimable and recovery not certain.

The following summarizes the Medical Center's financial highlights for the year ended December 31, 2006:

- The Medical Center recorded a 2006 operating loss of \$11.5 million resulting primarily from the continuing effects of Hurricane Katrina. The Medical Center had an operating loss of \$33.0 million for 2005.
- The Medical Center reported an overall 35% increase in total operating revenue compared to 2005 due mainly to increased volumes because of the reduced availability of healthcare in the region as the community continues in its recovery mode.
- The Medical Center used \$9.3 million to fund operations during 2006 while waiting for state funding to offset the cost of providing indigent care. Investments in capital assets totaled \$21.9 million. Additionally, the Medical Center had net interest payments of \$6.9 million and principal repayments of \$1.5 million.
- To assist the metropolitan area with retention of graduate medical students in the aftermath of Hurricane Katrina, in July 2006 the Medical Center received designation as a major teaching hospital. The Medical Center has agreements with LSU and Tulane University Schools of Medicine to accept graduate medical students in several disciplines. As a major teaching hospital, the Medical Center receives an increase in the Medicaid per diem rate

Pension Trust Fund - Financial Highlights for the Year Ended December 31, 2007

The Plan's net assets increased \$2,870,890 and \$4,771,731 in 2007 and 2006, respectively. The 2007 increase in the Plan's net assets were primarily due to investment income resulting from net appreciation of investments and an increase in dividends, although these amounts decreased overall in the current year compared to 2006 due to less favorable market conditions in the current year. The Plan's employer contributions decreased by \$259,121 and \$616,097 in 2007 and 2006, respectively. Contribution amounts needed to fund the Plan are determined by an independent actuary.

The Plan's investments consist primarily of fixed income mutual funds, equity mutual funds, and money market funds, which increased by \$3,346,421 and \$5,410,704 in 2007 and 2006, respectively, due to employer contributions to the Plan and an increase in the fair value of the Plan's assets.

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006

Pension Trust Fund - Financial Highlights for the Year Ended December 31, 2006

The Plan's net assets increased \$4,771,731 and \$2,684,209 in 2006 and 2005, respectively. The increases in net assets were primarily attributable to favorable market conditions. The Plan's employer contribution decreased by \$616,097 in 2006 and increased by \$256,229 in 2005. Contribution amounts needed to fund the Plan are determined by an independent actuary. The Plan's investments consist primarily of fixed income mutual funds, equity mutual funds, and money market funds, which increased by \$5,410,704 and \$2,410,167 in 2006 and 2005, respectively, due to employer contributions to the Plan and favorable market conditions.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements – Enterprise Fund

The Basic Financial Statements in this report are presented using Governmental Accounting Standards Board (GASB) accounting principles.

The balance sheets include all of the Medical Center's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Medical Center creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the Medical Center, and assessing the liquidity and financial flexibility of the Medical Center.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net assets. These statements measure changes in the Medical Center's operations over the current and prior year and can be used to determine whether the Medical Center has been able to recover all of its costs through its patient service revenue and other revenue sources.

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Medical Center's cash from operating, investing, and financing activities and provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

The financial statements provide both long-term and short-term information about the Medical Center's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The Medical Center's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the statements of revenues, expenses, and changes in net assets. All assets and liabilities associated with the operation of the Medical Center are included in the balance sheets.

The balance sheets and the statements of revenues, expenses, and changes in net assets report information about the Medical Center's activities. Increases or decreases in the Medical Center's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006

Fund Financial Statements - Pension Trust Fund

The Medical Center's fund financial statements consist of its pension trust fund. As a fiduciary fund, the pension trust fund is held for the benefit of employees and retirees of the Medical Center. The pension trust fund is not reflected in the government wide financials because the resources are not available to the Medical Center for its activities. The accounting for the pension trust fund is much like that used by the enterprise fund.

The statements are followed by required supplementary information and other supplementary information that further explain and support the information in the financial statements.

FINANCIAL ANALYSIS - ENTERPRISE FUND

2007 and 2006 Balance Sheets – Enterprise Fund

Table 1A represents a summary of the financial changes to the Medical Center in 2007 as compared to 2006. The Medical Center's total assets increased by approximately \$1.3 million, or .3% to \$384.5 million in 2007 compared to \$383.2 million in 2006.

TABLE 1A - 2007 vs. 2006
Condensed Balance Sheets

	<u>December 31</u>		<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
	<u>2007</u>	<u>2006</u>		
Total current assets	\$ 70,051,793	\$ 77,166,719	\$ (7,114,926)	-9.2%
Board-designated investments	125,173,344	111,088,388	14,084,956	12.7%
Trustee-held assets	22,690,617	32,968,764	(10,278,147)	-31.2%
Property, plant, and equipment, net	159,929,378	154,330,218	5,599,160	3.6%
Other assets	6,631,019	7,654,719	(1,023,700)	-13.4%
Total Assets	\$ 384,476,151	\$ 383,208,808	\$ 1,267,343	0.3%
Current liabilities	\$ 40,506,319	\$ 37,885,929	\$ 2,620,390	6.9%
Long-term debt and other long-term liabilities	201,572,386	209,197,726	(7,625,340)	-3.6%
Total liabilities	242,078,705	247,083,655	(5,004,950)	-2.0%
Net assets	142,397,446	136,125,153	6,272,293	4.6%
Total liabilities and net assets	\$ 384,476,151	\$ 383,208,808	\$ 1,267,343	0.3%

Current Assets

Current assets decreased by approximately \$7.1 million. The decrease is primarily due to a \$3.0 million decrease in accounts receivable primarily reflecting increased efficiency in collection activities and a \$1.3 million decrease in other receivables due to a \$6.0 million uncompensated care receivable from the State recorded in 2006 and received in February 2007. The \$6.0 million decrease was partially offset by a \$2.5 million receivable from the State recorded at December 31, 2007. Prepaid expenses increased by \$1.0 million primarily due to deposits with vendors and due to prepaid software maintenance contracts on the Medical Center's clinical and other software.

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006

Board-designated Cash and Investments

Board-designated cash and investments increased by approximately \$14.1 million in 2007 from 2006 due primarily to an increase in investment income in the current year as well as investment of receipts from the settlement of the Medical Center's business interruption insurance claim.

Property, Plant and Equipment

The following table presents the components of property, plant, and equipment at December 31, 2007 and 2006. In 2007, net property, plant, and equipment increased by approximately \$5.6 million, or 4%, as the Medical Center continued to enhance existing facilities and equipment including a new PET/CT scan system and a new neurovascular lab.

Construction in progress increased approximately \$5.0 million, or 57%, due primarily to projects such as technical and property infrastructure upgrades as well as software and equipment upgrades.

In 2006, net property, plant, and equipment increased by approximately \$5.6 million or 4%, which included costs associated with the support services project and other capital expenditures to enhance existing facilities and equipment.

TABLE 2A
Property, Plant and Equipment

	December 31		Dollar Change	Percent Change
	2007	2006		
Land and land improvements	\$ 20,892,843	\$ 19,921,793	\$ 971,050	4.87%
Building and fixed equipment	174,844,855	170,767,874	4,076,981	2.39%
Equipment	180,598,823	168,973,246	11,625,577	6.88%
Subtotal	376,336,521	359,662,913	16,673,608	4.64%
Less accumulated depreciation	(230,258,401)	(214,149,521)	(16,108,880)	7.52%
Construction in progress	13,851,258	8,816,826	5,034,432	57.10%
Property, plant, and equipment, net	<u>\$ 159,929,378</u>	<u>\$ 154,330,218</u>	<u>\$ 5,599,160</u>	3.63%

In Table 3 below, the Medical Center's fiscal year 2008 capital budget projects spending of up to \$9.5 million for capital projects (excluding those projects approved in prior years). These projects represent primarily equipment purchases and will be financed from fund balance. More information about the Medical Center's capital assets is presented in the Notes to the Basic Financial Statements.

TABLE 3
FISCAL YEAR 2008 CAPITAL BUDGET

Equipment purchases	\$ 6,239,892
Construction/renovations	3,224,000
Prior year approved items	<u>9,564,000</u>
	<u>\$ 19,027,892</u>

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006

Long-Term Debt

At 2007 and 2006, the Medical Center had \$197 million and \$208 million, respectively, in debt outstanding which includes the \$30.7 million Community Disaster Loan. In 2007, total debt decreased by approximately \$10.4 million due to principal payments. More detailed information about the Medical Center's long-term liabilities is presented in the Notes to Basic Financial Statements. Total debt outstanding represents approximately 51% of the Medical Center's total assets at December 31, 2007, compared to approximately 54% in 2006.

Net Assets

The following table presents the components of the Medical Center's net assets at December 31, 2007 and 2006:

TABLE 4A
Components of Net Assets

	December 31		Dollar Change	Percent Change
	2007	2006		
Invested capital assets, net of related debt	\$ (6,848,404)	\$ (17,086,699)	\$ 10,238,295	-59.92%
Restricted	23,731,384	27,209,328	(3,477,944)	-12.78%
Unrestricted	125,514,466	126,002,524	(488,058)	-0.39%
Total net assets	<u>\$ 142,397,446</u>	<u>\$ 136,125,153</u>	<u>\$ 6,272,293</u>	4.61%

Net assets increased \$6.3 million during 2007 which was an improvement over a decrease of \$12.6 million in 2006. The 2006 decrease was a result primarily of the operating losses recognized in the period. Refer to the pages that follow Table 5 for a discussion of 2007 operations.

2006 and 2005 Balance Sheets - Enterprise Fund

Table 1B presents a summary of the financial changes to the Medical Center in 2006 as compared to 2005. The Medical Center's total assets increased by approximately \$14.7 million or approximately 4% to \$383 million in 2006 as compared to 2005.

Current Assets

Current assets increased by approximately \$16.9 million. The increase is primarily due to a \$6.0 million increase in cash and cash equivalents resulting from increased collection activity and a \$5.7 million increase in other receivables primarily due to recording a \$6.0 million uncompensated care receivable from the State. In addition, patient accounts receivable increased by approximately \$2.9 million due in part to increases in net patient revenue, offset by cash collections, as well as the increase in uninsured patient accounts. Prepaid expense increased by \$1.0 million primarily due to prepaid software maintenance contracts on the Medical Center's clinical and other software.

Designated Cash and Investments

Designated cash and investments increased in 2006 by approximately \$1.1 million from 2005 due primarily to an increase in investment income in the current year which was partially offset by the liquidation of investments to fund operations.

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006

TABLE 1B - 2006 vs. 2005
Condensed Balance Sheets

	December 31		Dollar Change	Percent Change
	2006	2005		
Total current assets	\$ 77,166,719	\$ 60,245,651	\$ 16,921,068	28.09%
Board-designated investments	111,088,388	109,242,707	1,845,681	1.69%
Trustee-held assets	32,968,764	43,575,393	(10,606,629)	-24.34%
Property, plant, and equipment, net	154,330,218	148,707,723	5,622,495	3.78%
Other assets	7,654,719	6,737,546	917,173	13.61%
Total Assets	\$ 383,208,808	\$ 368,509,020	\$ 14,699,788	3.99%
Current Liabilities	\$ 37,885,929	\$ 42,589,712	\$ (4,703,783)	-11.04%
Long-term debt and other long-term liabilities	209,197,726	177,239,214	31,958,512	18.03%
Total liabilities	247,083,655	219,828,926	27,254,729	12.40%
Net assets	136,125,153	148,680,094	(12,554,941)	-8.44%
Total liabilities and net assets	\$ 383,208,808	\$ 368,509,020	\$ 14,699,788	3.99%

Property, Plant and Equipment

The following table presents the components of property, plant, and equipment at December 31, 2006 and 2005. In 2006, net property, plant, and equipment increased by approximately \$5.6 million, or 4%, in 2006 as the Medical Center continued to enhance existing facilities. Construction in progress decreased approximately \$14.8 million, or 63%, as the Medical Center capitalized construction costs on its completed support services facility. In 2005, net property, plant, and equipment increased by approximately \$9.7 million or 7%, primarily due to costs incurred on the support services project and as the Medical Center continued to enhance existing facilities.

TABLE 2B
Property, Plant and Equipment

	December 31		Dollar Change	Percent Change
	2006	2005		
Land and land improvements	\$ 19,921,793	\$ 16,835,800	\$ 3,085,993	18.33%
Building and fixed equipment	170,767,874	147,742,203	23,025,671	15.59%
Equipment	168,973,246	158,561,933	10,411,313	6.57%
Subtotal	359,662,913	323,139,936	36,522,977	11.30%
Less accumulated depreciation	(214,149,521)	(198,044,259)	(16,105,262)	8.13%
Construction in progress	8,816,826	23,612,046	(14,795,220)	-62.66%
Property, plant, and equipment, net	\$ 154,330,218	\$ 148,707,723	\$ 5,622,495	3.78%

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006

Long-Term Debt

At 2006 and 2005, the Medical Center had \$208 and \$178 million, respectively, in debt outstanding. In 2006, total debt increased in the current year by approximately \$29.2 million, net of payments, due to a community disaster loan of approximately \$30.7 million offset by principal payments of approximately \$1.5 million. More detailed information about the Medical Center's long-term liabilities is presented in the Notes to Basic Financial Statements. Total debt outstanding represents approximately 54% of the Medical Center's total assets at December 31, 2006, compared to approximately 47% in 2005.

Net Assets

The following table presents the components of the Medical Center's net assets at December 31, 2006 and 2005:

TABLE 4B
Components of Net Assets

	December 31		Dollar Change	Percent Change
	2006	2005		
Invested capital assets, net of related debt	\$ (17,086,699)	\$ (7,536,833)	\$ (9,549,866)	126.71%
Restricted	27,209,328	16,751,235	10,458,093	62.43%
Unrestricted	126,002,524	139,466,292	(13,463,768)	-9.65%
Total net assets	<u>\$ 136,125,153</u>	<u>\$ 148,680,694</u>	<u>\$ (12,555,541)</u>	-8.44%

Net assets decreased \$12.6 million during 2006 which was an improvement over the \$37.6 million decrease in 2005. Both 2006 and 2005 decreases are a result primarily of the operating losses in each respective period. Refer to the pages that follow Table 8 for a discussion of operations.

2007 and 2006 Statements of Revenues and Expenses - Enterprise Fund

Operating Revenue - Net Patient Service Revenue

This discussion refers to the summarized activity presented in the Medical Center's Condensed Statements of Revenues and Expenses in Table 5 for 2007 and 2006.

Overall, net patient service revenue increased by approximately \$1.3 million, or 0.6%, for fiscal year 2007 when compared to an increase of \$68.7 million, or 44% in 2006 over 2005. In 2006 the Medical Center experienced significant increases in volumes as a result of the impact from Hurricane Katrina on the healthcare infrastructure in the metropolitan area. As of the end of 2005, several of the New Orleans area hospitals had yet not reopened which caused an increase in the volume of patients utilizing the Medical Center in 2006.

Inpatient gross revenue decreased by approximately 2% in 2007 compared to the prior year. The decrease is primarily a result of an overall 1% volume decrease in admissions, an 8% decrease in patient days and a 10% decrease in inpatient surgical services. Additionally, the overall case mix index decreased over the prior year. Total inpatient admissions decreased by approximately 1.2% to 17,646 admissions in 2007. The 2007 volumes declined from the significant artificial spike in volumes in 2006 due to the hurricane's effects on healthcare in the area.

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006

TABLE 5
CONDENSED STATEMENTS OF REVENUES AND EXPENSES
Years Ended December 31

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenue:				
Net patient service revenue	\$ 224,997,989	223,650,291	\$ 1,347,698	0.60%
Other operating revenue	16,929,520	8,938,548	7,990,972	89.40%
Total operating revenue	<u>241,927,509</u>	<u>232,588,839</u>	<u>9,338,670</u>	<u>4.02%</u>
Operating expenses:				
Salaries and wages	91,741,060	89,895,927	1,845,133	2.05%
Employee benefits	20,308,087	19,878,239	429,848	2.16%
Professional fees	21,349,109	16,058,733	5,290,376	32.94%
Medical and general supplies	43,695,856	43,219,415	476,441	1.10%
Purchased services	34,479,003	42,214,897	(7,735,894)	-18.33%
Other expenses	12,146,613	16,352,841	(4,206,228)	-25.72%
Depreciation	17,053,354	16,465,231	588,123	3.57%
Total operating expenses	<u>240,773,082</u>	<u>244,085,283</u>	<u>(3,312,201)</u>	<u>-1.36%</u>
Gain (Loss) from operations	1,154,427	(11,496,444)	12,650,871	-110.04%
Total investment income	8,567,875	5,900,167	2,667,708	45.21%
Interest expense, net	(6,968,467)	(6,143,315)	(825,152)	13.43%
Other	6,062,027	1,852,258	4,209,769	227.28%
Assessments by Jefferson Parish				
and support to others	(2,543,569)	(2,668,207)	124,638	-4.67%
Net assets, beginning of year	136,125,153	148,680,694	(12,555,541)	-8.44%
Net assets, end of year	<u>\$ 142,397,446</u>	<u>136,125,153</u>	<u>\$ 6,272,293</u>	<u>4.61%</u>

General acute inpatient admissions decreased by approximately 0.8% to 15,880 in the current year. Total patient days decreased by approximately 7.8% to 92,263, while general acute patient days decreased by 6.3% to 76,997 patient days compared to the prior year. In addition, total average daily census decreased by 7.8% to 252.8 compared to 2006. Overall inpatient revenues and volumes in 2006 reflected the effects of Hurricane Katrina which significantly drove up volumes to artificially high levels, driving up volumes as a result of the decline in the number of healthcare providers in the metropolitan area. Fiscal year 2007 inpatient activity reflects some progress in providers and services available in the area as well as moving away from the artificially high volume levels post-Katrina.

Outpatient gross revenue increased by 6.7% in 2007 compared to the prior year. The growth in outpatient gross revenue is attributable to an increase in outpatient billable units and service volumes such as physical, occupational and speech therapy units, endoscopy, radiation therapy, imaging services and hyperbaric services.

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006

Total gross emergency room visits decreased by 8.0% to 52,107 visits in 2007 compared to 2006, while total net emergency room visits (net of those patients who leave against medical advice or leave without completing the visit) decreased by 6.3%. Clinic visits of 80,488 were down 2.9% in the current year compared to 2006.

The Medical Center derived approximately 93% and 96% in 2007 and 2006 respectively, of its total net operating revenue from patient services. The Medical Center's revenue has historically generated from services provided to patients drawn primarily from communities located on the west bank of the Mississippi River in the Greater New Orleans area. In the immediate aftermath of Hurricane Katrina, all but the Medical Center and two other hospitals were closed in the New Orleans metropolitan area. In the interim, as other hospitals and medical facilities reopened, the Medical Center experienced an increase in the number of patients drawn from other communities in the New Orleans metropolitan area. Patient service revenue is generated by providing services to patients who are covered by Medicare, Medicaid, or managed care contracts, as well as by providing services to self-pay and indigent patients. The impact of Hurricane Katrina on the metropolitan area's health care facilities also resulted in changes to the Medical Center's payor mix. Self-pay patient revenues experienced major increases in late 2005 and 2006.

Table 6 below presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended December 31, 2007 and 2006.

Table 6
PAYOR MIX

	2007	2006
Managed care/commercial	31%	31%
Medicare	26%	27%
Medicare HMO	15%	13%
Medicaid	18%	17%
Self-pay and other	10%	12%
Total patient revenues	100%	100%

Reimbursements to the Medical Center are made on behalf of patients by the federal and state governments under the Medicare and Medicaid programs, respectively, by commercial insurance carriers and health maintenance organizations, as well as by patients on their own behalf. The difference between the covered charges and the payments under government programs and established contracts is recognized as a contractual allowance. The following table presents the contractual allowances on gross billings by payor and the provision for doubtful accounts.

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006

TABLE 7
ALLOWANCE SUMMARY

	Years Ended December 31	
	<u>2007</u>	<u>2006</u>
Contractual Allowances		
Managed care and commercial accounts	\$ 266,545,559	\$ 247,278,307
Medicaid contractual allowances	115,709,822	104,872,105
Medicare contractual allowances	149,159,604	155,579,840
Other adjustments	<u>8,954,800</u>	<u>11,737,064</u>
Total contractual allowances	540,369,785	519,467,316
Doubtful accounts	<u>19,430,889</u>	<u>35,255,036</u>
	<u>\$ 559,800,674</u>	<u>\$ 554,722,352</u>

In 2007, the doubtful accounts decreased by \$15,824,147 compared to 2007 due primarily to continued emphasis on assisting uninsured patients to apply and qualify for Medicaid benefits, increased collection efficiency in 2007 and due a revision of its estimates of the allowance for doubtful accounts based on review of more recent collection data. Also reflected in the decrease in doubtful accounts in 2007 was \$8.2 million of partial funding for uncompensated care which is recorded as a reduction of bad debt. Had these partial funding amounts not been recorded in 2007 doubtful accounts in 2007 would have been approximately \$27.6 million.

In 2006, doubtful accounts decreased by \$40,265,932 compared to 2005 as the Medical Center increased its allowance for doubtful accounts in the fourth quarter of 2005 due to the effects of Hurricane Katrina which resulted in an increase in self-pay accounts. In addition, Hurricane Katrina caused displacement of residents and businesses, as well as disruptions in mail service which impacted collection efforts. In 2006 the Medical Center recorded approximately \$13.0 million of uncompensated care receipts from the State of Louisiana and accrued a \$6.0 million receivable from the State for amounts that was paid in 2007 all of which represented partial reimbursement for the Medical Center's increased cost of uncompensated care resulting from the effects of Hurricane Katrina on healthcare in the region. These amounts were also recorded as a reduction of bad debt. Had these amounts not been recorded in 2006 doubtful accounts shown above would have been approximately \$54.0 million.

Other Operating Revenue

Other operating revenue includes income primarily generated by rent receipts from the Medical Center's professional office buildings and Medical Plaza, as well as income from other miscellaneous services, such as its fitness centers and Alzheimer's day care services. Also included in 2007 other operating revenue is approximately \$4.8 million of proceeds from the settlement of the Medical Center's business interruption and property damage claims.

Investment Income

The Medical Center maintains investments that are shown in its Balance Sheets as both board-designated and restricted trustee-held funds. These funds are invested primarily in money market funds and securities issued by the U.S. Treasury and other federal agencies.

Other Non-Operating Income

The Medical Center received donations of cash and property from a related entity totaling \$4.2 million in 2007. No donations were made by the related entity in 2006.

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006

Operating Expenses

2007

Salaries and wages increased \$1.8 million, or 2%, compared to 2006. The increase primarily represents merit increases in the current year partially offset by the Medical Center's efforts to flex staffing to volumes.

Employee benefits increased by \$429,848, or 2%, in 2007 compared to the prior year due to an increase in group health insurance expenses primarily due to the severity of claims processed. This increase was partially offset by decreases in other taxes and benefits, workers compensation expenses and a decrease in pension and retirement expenses in part due to a lower actuarially determined contribution.

Professional fees increased by \$5.3 million, or 33%, compared to the prior year primarily due to increases in graduate medical education ("GME") expenses, ER physician professional fees, anesthesia professional fees and an increase in legal fees. The increase in 2007 GME expenses represents a full year of expenses compared to six months in the prior year as the program began in July 2006.

Medical and General Supply expenses were up \$476,441, or just over 1% compared to the prior year. The increase is primarily due to a 3% increase in drug costs and a 14% increase in blood supplies costs which were partially offset by an 8% decrease in I.V. solutions costs and an overall slight decrease in medical/surgical supply costs.

Purchased services decreased by \$7.7 million, or 18%, in 2007 compared to the prior year with \$6.3 million, or 82%, of the decrease resulting from the reduction in the use of contract labor. Total contract labor expenses decreased by 52% in 2007 compared to 2006. Contract labor expenses had increased 695% in 2006 compared to 2005 as the region experienced an acute nursing shortage resulting from Hurricane Katrina. The Medical Center intensified its recruitment and retention efforts to reduce its reliance on contract labor resulting in a reduction from approximately 100 contract FTEs in 2006 to just over 10 contract FTEs at year-end 2007. As discussed under "Financial Highlights" above, to assist with recruiting efforts the Medical Center also implemented an accelerated nursing program which began in January 2008.

Also contributing to the year-to-date decrease in purchased services was \$1.4 million, or 7%, decrease in overall purchased services, and a \$283,000, or 8%, decrease in medical purchased services. These decreases were partially offset by an increase of \$247,000, or 9%, in computer maintenance contract expenses and an increase of \$273,000, or 21%, in collection services expense.

Other expenses decreased by \$4.2 million, or 26%, in 2007 compared to the prior year primarily due to a \$3.1 million change and reclassification in professional liability insurance expense. At December 31, 2006 the Medical Center recorded a \$1.9 million increase in professional liability reserves based on actuarial valuation of its reserve requirements. At December 31, 2007, the actuarial valuation of its reserve requirements resulted in the Medical Center reclassifying a total of \$1.3 million of reserves to workers' compensation, general liability and malpractice litigation expense reserves. The reclassification and increase to the workers compensation reserve is recorded as an increase in employee benefits expense while the malpractice litigation reserve increase is recorded as an increase in legal fees expense. Also included in the decrease in other expenses was a \$379,000, or 21%, decrease in equipment rental expense and an \$898,000, or 67%, decrease in advertising expenses.

Net interest expense increased by \$825,152, or 13%, primarily due to lower returns on the Medical Center's interest rate swap agreements as well as due to a decrease in investment income earned on bond trust investments which offsets interest expense.

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006

2006

Salaries for 2006 increased \$11.2 million, or 14%, compared to 2005. The increase is due primarily to the effect of November 2005 market increases for a majority of the Medical Center's employees, a nursing market increase in July 2006 to assist in nursing retention efforts, as well as merit increases in the current year.

Employee Benefits increased in 2006 by \$5.2 million, or 36%, compared to 2005. The increase is primarily due to an increase in group health insurance expenses as well as increases in other taxes and benefits which include employee group life insurance and unemployment tax expenses. Also contributing to the increase was an increase in payroll tax expense due to the increase in salary expense noted above.

Professional Fees in 2006 increased \$1.7 million, or 12%, compared to the prior year. The increase is primarily due to ER physician professional fees which were not incurred in 2005, accrued graduate medical education (GME program expenses which were not incurred in 2005, as well as an increase in anesthesia professional fees compared to the prior year.

Medical and General Supply spending in 2006 increased by \$11 million, or 34%, compared to the prior year. The 2006 increase was primarily due to a 49% increase in medical/surgical supplies cost for the Operating Room and an increase of 50% for Special Procedures as represented by increased case volumes. The increase is also partially due to a \$2.6 million, or 29%, increase in drug expenses resulting from higher utilization and increased drug costs.

Purchased Services expenses increased in 2006 by \$15.2 million, or 56%, compared to 2005. The increase compared to 2005 was primarily due to a \$10.6 million, or 695%, increase in contract labor as the region experienced an acute nursing shortage resulting from Hurricane Katrina. Also contributing to the year-to-date increase were: a \$1.7 million, or 9%, increase in overall purchased services, a \$1.6 million, or 92%, increase in medical purchased services due to inclusion of 2006 CyberKnife expenses and a \$1.1 million, or 64%, increase in computer maintenance and standard maintenance contract expenses.

Other Expenses increased by \$2.9 million, or 21%, in 2006 compared to the prior year. The increase is due in part to increased professional liability and other insurance expenses as well as an increase in advertising expenses. Interest expense remained consistent with the prior year. Interest expense in 2006 includes accrued interest on the \$30.7 million community disaster loan.

2006 and 2005 Statements of Revenues and Expenses - Enterprise Fund

Operating Revenue - Net Patient Service Revenue

Table 8 compares 2006 to 2005 statements of revenues and expenses. Overall, net patient revenue increased by approximately \$68.7 million, or 44%, for fiscal year 2006 when compared to a decrease of \$26.5 million, or 15% in 2005. In 2006, the Medical Center experienced an increase in some of its volumes as a result of the impact on healthcare in the metropolitan area as a result of Hurricane Katrina. The decrease in 2005 was a result of the effects of Hurricane Katrina, which resulted in the decrease of 10% in prior year's net patient revenue due to the evacuation of residents in the metropolitan New Orleans area, including the Medical Center's primary and secondary service areas. As of the end of 2005, several the New Orleans area hospitals had yet not reopened, causing an increase in the volume of patients at utilizing the Medical Center. The Medical Center's allowance for doubtful accounts was increased as a result of a major increase in self-pay patient accounts due to Hurricane Katrina. In addition, the hurricane displaced residents and businesses, as well as caused disruptions in mail service which impacted collection efforts. During 2007, amounts as previously reported for 2005 were restated as a result of the identification of an error in the calculation of patient accounts receivables.

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006

Inpatient gross revenue grew by approximately 21% in 2006 compared to the prior year. The increase is primarily due to an overall 4% volume increase in admissions, an 11% increase in patient days and an 18% increase in inpatient surgical services. The overall case mix index increased over the prior year. Total inpatient admissions grew by approximately 4.7% to 17,855 admissions in 2006. General acute inpatient admissions increased by 6.0% to 16,002 in the current year. Total patient days increased by approximately 11.5% to 100,055, while general acute patient days increased by 12.9% to 82,192 patient days compared to the prior year. In addition, total average daily census increased by 11.5% to 274.1 compared to 2005.

Outpatient gross revenue increased by 17.9% in 2006 compared to the prior year. Total outpatient units of service, excluding pharmacy outpatient units dispensed, emergency room visits, and clinic visits, increased by 18.2% in the current year compared to 2005. While total gross emergency room visits increased by 2.7% to 56,638 visits in 2006 compared to 2005, total net emergency room visits (net of those patients who leave against medical advice or leave without completing the visit) were consistent with the 2005 total which was affected by Hurricane Katrina. Clinic visits of 82,946 were up 21.3% in the current year compared to 2005.

TABLE 8
CONDENSED STATEMENTS OF REVENUES AND EXPENSES
Years Ended December 31

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenue:				
Net patient service revenue	\$ 223,650,291	\$ 154,992,696	\$ 68,657,595	44.3%
Other operating revenue	8,938,548	8,436,541	502,007	6.0%
Total operating revenue	<u>232,588,839</u>	<u>163,429,237</u>	<u>69,159,602</u>	<u>42.3%</u>
Operating expenses:				
Salaries and wages	89,895,927	78,672,724	11,223,203	14.3%
Employee benefits	19,878,239	14,651,154	5,227,085	35.7%
Professional fees	16,058,733	14,323,073	1,735,660	12.1%
Medical and general supplies	43,219,415	32,142,430	11,076,985	34.5%
Purchased services	42,214,897	26,955,824	15,259,073	56.6%
Other expenses	16,352,841	13,364,984	2,987,857	22.4%
Depreciation	16,465,231	16,280,524	184,707	1.1%
Total operating expenses	<u>244,085,283</u>	<u>196,390,713</u>	<u>47,694,570</u>	<u>24.3%</u>
Loss from operations	(11,496,444)	(32,961,476)	21,465,032	-65.1%
Total investment income	5,900,167	2,119,974	3,780,193	178.3%
Interest expense, net	(6,143,315)	(6,141,027)	(2,288)	0.0%
Other	1,852,258	88,366	1,763,892	1996.1%
Assessments by Jefferson Parish	(2,668,207)	(666,667)	(2,001,540)	300.2%
Net assets, beginning of year	148,680,694	186,241,524	(37,560,830)	-20.2%
Net assets, end of year	<u>\$ 136,125,153</u>	<u>\$ 148,680,694</u>	<u>\$ (12,555,541)</u>	<u>-8.4%</u>

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006

The Medical Center derived approximately 96% and 95% in 2006 and 2005, respectively, of its total operating revenue from patient services. The Medical Center's revenue is historically generated from services provided to patients drawn primarily from communities located on the west bank of the Mississippi River in the Greater New Orleans area. In the immediate aftermath of Hurricane Katrina, all but the Medical Center and two other hospitals were closed in the New Orleans metropolitan area. In the interim, as other hospitals and medical facilities reopen, the Medical Center could experience an increase in the number of patients drawn from other communities in the New Orleans metropolitan area.

Patient service revenue is generated by providing services to patients who are covered by Medicare, Medicaid, or managed care contracts, as well as by providing services to self-pay and indigent patients. The impact of Hurricane Katrina on the metropolitan area's health care facilities resulted in changes to the Medical Center's payor mix. Self-pay patient revenues experienced major increases.

Table 9 below presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended December 31, 2006 and 2005.

Table 9
PAYOR MIX

	2006	2005
Managed care/commercial	31%	32%
Medicare	27%	29%
Medicare HMO	13%	11%
Medicaid	17%	18%
Self-pay and other	12%	10%
Total patient revenues	100%	100%

Reimbursements to the Medical Center are made on behalf of patients by the federal and state governments under the Medicare and Medicaid programs, respectively, by commercial insurance carriers and health maintenance organizations, as well as by patients on their own behalf. The difference between the covered charges and the payments under government programs and established contracts is recognized as a contractual allowance. In 2006, doubtful accounts decreased compared to 2005 as the Medical Center increased its allowance for doubtful accounts in the fourth quarter of 2005 due to the effects of Hurricane Katrina and recorded in 2006 amounts that represent partial funding for uncompensated care. In 2006 the Medical Center recorded approximately \$13.0 million of uncompensated care receipts from the State of Louisiana, and accrued a \$6.0 million receivable from the State for amounts that will be paid in 2007, which represent only partial reimbursement for the Medical Center's increased cost of uncompensated care resulting from the effects of Hurricane Katrina on healthcare in the region. These amounts were recorded as a reduction of bad debt. Had these amounts not been recorded in 2006 doubtful accounts shown above would have been approximately \$54.0 million. In 2005, doubtful accounts increased due to the effects of Hurricane Katrina, which resulted in an increase in self-pay accounts. In addition, Hurricane Katrina caused displacement of residents and businesses, as well as disruptions in mail service which impacted collection efforts.

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006

Other Operating Revenue

Other operating revenue includes income primarily generated by rent receipts from the Medical Center's professional office buildings and Medical Plaza, as well as income from other miscellaneous services, such as its fitness centers and Alzheimer's day care services.

Investment Income

The Medical Center maintains investments that are shown in its Balance Sheets as both board-designated and restricted trustee-held funds. These funds are invested primarily in money market funds and securities issued by the U.S. Treasury and other federal agencies.

Operating Expenses

2006

Salaries for 2006 increased \$11.2 million, or 14%, compared to 2005. The increase is due primarily to the effect of November 2005 market increases for a majority of the Medical Center's employees, a nursing market increase in July 2006 to assist in nursing retention efforts, as well as merit increases in the current year.

Employee Benefits increased in 2006 by \$5.2 million, or 36%, compared to 2005. The increase is primarily due to an increase in group health insurance expenses as well as increases in other taxes and benefits which include employee group life insurance and unemployment tax expenses. Also contributing to the increase was an increase in payroll tax expense due to the increase in salary expense noted above.

Professional Fees in 2006 increased \$1.7 million, or 12%, compared to the prior year. The increase is primarily due to ER physician professional fees which were not incurred in 2005, accrued graduate medical education (GME) program expenses which were not incurred in 2005, as well as an increase in anesthesia professional fees compared to the prior year.

Medical and General Supply spending in 2006 increased by \$11 million, or 34%, compared to the prior year. The 2006 increase was primarily due to a 49% increase in medical/surgical supplies cost for the Operating Room and an increase of 50% for Special Procedures as represented by increased case volumes. The increase is also partially due to a \$2.6 million, or 29%, increase in drug expenses resulting from higher utilization and increased drug costs.

Purchased Services expenses increased in 2006 by \$15.2 million, or 56%, compared to 2005. The increase compared to 2005 was primarily due to a \$10.6 million, or 695%, increase in contract labor as the region experienced an acute nursing shortage resulting from Hurricane Katrina. Also contributing to the year-to-date increase were: a \$1.7 million, or 9%, increase in overall purchased services, a \$1.6 million, or 92%, increase in medical purchased services due to inclusion of 2006 CyberKnife expenses and a \$1.1 million, or 64%, increase in computer maintenance and standard maintenance contract expenses.

Other expenses increased by \$2.9 million, or 21%, in 2006 compared to the prior year. The increase is due in part to increased professional liability and other insurance expenses as well as an increase in advertising expenses.

Interest expense remained consistent with the prior year. Interest expense in 2006 includes accrued interest on the \$30.7 million community disaster loan.

**WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006**

Pension Trust Fund

2007 Plan Net Assets

The Medical Center's total plan net assets of its pension trust fund at December 31, 2007 was approximately \$57 million, a 5.3% increase over December 31, 2006 (see table A-10). Plan net assets increased by \$2.9 million from 2006 primarily due to realized and unrealized gains on investments recognized in 2006 which were partially offset by a reduction in the Medical Center's actuarially determined contribution.

**Table A-10
Retirement Plan for Employees of West Jefferson Medical Center
Plan Net Assets**

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>Increase (Decrease)</u>
Cash and investments	\$ 55,499,338	\$ 52,152,917	\$3,346,421	6.4%
Receivables	2,042,846	2,205,329	(162,483)	-7.4%
Total assets	57,542,184	54,358,246	3,183,938	5.9%
Total liabilities	319,133	6,085	313,048	5144.6%
Plan net assets	<u>\$ 57,223,051</u>	<u>\$ 54,352,161</u>	<u>\$2,870,890</u>	5.3%

2006 Plan Net Assets

The Medical Center's total plan net assets of its pension trust fund at December 31, 2006 was approximately \$54.4 million, a 9.6% increase over December 31, 2005 (see table A-11).

**Table A-11
Retirement Plan for Employees of West Jefferson Medical Center
Plan Net Assets**

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>	<u>Increase (Decrease)</u>
Cash and investments	\$52,152,917	\$46,742,213	\$5,410,704	11.6%
Receivables	2,205,329	2,843,670	(638,341)	-22.4%
Total assets	54,358,246	49,585,883	4,772,363	9.6%
Total liabilities	6,085	5,453	632	11.6%
Plan net assets	<u>\$54,352,161</u>	<u>\$49,580,430</u>	<u>\$4,771,731</u>	9.6%

Plan net assets increased by \$4.8 million in 2006 primarily due to realized and unrealized gains on investments recognized in 2006 which were partially offset by a decrease in the Medical Center's actuarially determined contribution.

2007 Changes in Plan Net Assets

Table A-12 presents a summary of changes in Plan net assets for the year ended December 31, 2006. Contributions to the pension plan decreased in 2007 as compared to 2006 primarily as a result of the actuarially determined required contribution.

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006

The increase in plan net assets of \$2.9 million resulted primarily from an increase in realized and unrealized gains and dividends on investments, although these amounts decreased overall in 2007 compared to 2006 due to less favorable market conditions in 2007. These increases were partially offset by the decrease in the required contribution and an increase in benefit payments.

Table A-12
Retirement Plan for Employees of West Jefferson Medical Center
Change in Plan Net Assets

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>Increase (Decrease)</u>
Additions:				
Contributions	\$ 1,864,390	\$ 2,123,511	\$ (259,121)	-12.2%
Net income on investments	<u>3,671,655</u>	<u>5,207,029</u>	<u>(1,535,374)</u>	-29.5%
Total additions	<u>5,536,045</u>	<u>7,330,540</u>	<u>(1,794,495)</u>	-24.5%
Deductions:				
Benefits	(2,478,313)	(2,300,810)	(177,503)	7.7%
Administrative expenses	<u>(186,842)</u>	<u>(257,999)</u>	<u>71,157</u>	-27.6%
Total deductions	<u>(2,665,155)</u>	<u>(2,558,809)</u>	<u>(106,346)</u>	4.2%
Change in net assets	2,870,890	4,771,731	(1,900,841)	-39.8%
Plan net assets, beginning of year	54,352,161	49,580,430	4,771,731	9.6%
Plan net assets, end of year	<u>\$ 57,223,051</u>	<u>\$ 54,352,161</u>	<u>\$ 2,870,890</u>	5.3%

2006 Changes in Plan Net Assets

Table A-13 presents a summary of changes in Plan net assets for the year ended December 31, 2006. The increase in plan net assets of \$4.8 million resulted primarily from realized and unrealized gains on investments in 2006 which were partially offset by the decrease in contributions and by increased benefit payments.

Table A-13
Retirement Plan for Employees of West Jefferson Medical Center
Change in Plan Net Assets

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>	<u>Increase (Decrease)</u>
Additions:				
Contributions	\$ 2,123,511	\$ 2,739,608	\$ (616,097)	-22%
Net income on investments	<u>5,207,029</u>	<u>2,154,565</u>	<u>3,052,464</u>	142%
Total additions	<u>7,330,540</u>	<u>4,894,173</u>	<u>2,436,367</u>	50%
Deductions:				
Benefits	(2,300,810)	(2,055,914)	(244,896)	12%
Administrative expenses	<u>(257,999)</u>	<u>(154,050)</u>	<u>(103,949)</u>	67%
Total deductions	<u>(2,558,809)</u>	<u>(2,209,964)</u>	<u>(348,845)</u>	16%
Change in net assets	4,771,731	2,684,209	2,087,522	78%
Plan net assets, beginning of year	49,580,430	46,896,221	2,684,209	6%
Plan net assets, end of year	<u>\$ 54,352,161</u>	<u>\$ 49,580,430</u>	<u>\$ 4,771,731</u>	10%

WEST JEFFERSON MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
DECEMBER 31, 2007 AND 2006

ECONOMIC FACTORS AND OTHER

Damages to the healthcare infrastructure, the economy and available housing stock as a result of Hurricane Katrina all contributed to a challenging environment for the metropolitan area and West Jefferson Medical Center in 2006. Beginning in the fourth quarter of 2005 and continuing throughout calendar year 2006, the Medical Center experienced an increase in uninsured patients resulting from the loss of the Charity System in New Orleans and the loss of other providers in the area's healthcare infrastructure. In addition, the Medical Center's overall average length of stay increased due to a lack of nursing home beds available for discharged patients.

The Medical Center recorded higher labor costs as well as contract labor costs in 2006 due to the continuing shortage of nurse staffing in the region. To overcome some of these challenges, the Medical Center's administration continues to focus on obtaining uncompensated care reimbursement from the state and grant funds and/or reimbursement from the federal government and its insurers. In addition, in July 2006 the Medical Center began providing graduate medical education which will provide some incremental increase in reimbursement. In 2007 the Medical Center continued its recruitment and retention efforts which resulted in a 52% decrease in contract labor. As part of these efforts, the Medical Center implemented an accelerated nursing program in January 2008. Under this program students receive tuition and a stipend in exchange for a commitment to work for the Medical Center for three years upon graduation from the program.

As a result of non-compliance with its bond covenants in 2005 and 2006, the Medical Center was required to engage consultants to assist the Medical Center to improve its operating results. The Medical Center engaged two consulting firms, the first of which assisted with the benchmarking of labor standards to a selected peer group of hospitals and recommended other operating changes designed to improve throughput and decrease operating expenses. These recommendations were adopted by the Medical Center's Board of Directors and were in progress at December 31, 2007. The second consulting firm was engaged to review the Medical Center's operations, incorporating the recommendations from the first consultant, to assist in strategic planning and service line analysis. These efforts were in progress at December 31, 2007.

In addition, the Medical Center received from its bond insurers agreements to forebear until January 1, 2008 from the exercise of their respective rights and remedies as a result of the identified defaults. Also, in May 2007 one of its bond insurers directed, under the terms of the trust indenture, that a springing mortgage be recorded on substantially all of the Medical Centers property and equipment.

The Medical Center's CEO accepted another position in October 2007. At that time, the Medical Center's CFO was appointed to Interim CEO and, in February 2008, was approved as the CEO by the Jefferson Parish Council. At December 31, 2007, the CEO was also serving as CFO until the CFO position is filled. The Medical Center is currently working to name a new CFO.

Contacting the Medical Center's Administration

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Medical Center's finances and demonstrate the Medical Center's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Medical Center's Administration.

WEST JEFFERSON MEDICAL CENTER
BALANCE SHEETS
ENTERPRISE FUND
DECEMBER 31, 2007 AND 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current Assets:		
Cash and cash equivalents	\$ 7,059,849	\$ 6,439,499
Receivables:		
Patient accounts receivable, net	39,499,684	42,462,842
Other receivables	6,309,786	7,645,816
Inventory	4,064,181	4,200,050
Prepaid expenses	6,938,929	5,966,015
Designated cash and investments and that are required for current liabilities	<u>6,179,364</u>	<u>10,452,497</u>
Total current assets	<u>70,051,793</u>	<u>77,166,719</u>
Designated cash and investments:		
Board for specific purposes, at fair value	131,352,708	121,540,885
Trustee-held assets, at fair value	<u>22,690,617</u>	<u>32,968,764</u>
Total designated cash and investments	154,043,325	154,509,649
Less amounts required for current liabilities	<u>(6,179,364)</u>	<u>(10,452,497)</u>
Noncurrent designated cash and investments	<u>147,863,961</u>	<u>144,057,152</u>
Property, plant, and equipment, net	<u>159,929,378</u>	<u>154,330,218</u>
Other assets:		
Unamortized financing costs	3,080,111	3,255,079
Prepaid deferred compensation	203,340	1,297,733
Other	<u>3,347,568</u>	<u>3,101,907</u>
Total other assets	<u>6,631,019</u>	<u>7,654,719</u>
Total assets	<u>\$ 384,476,151</u>	<u>\$ 383,208,808</u>

(Continued)

WEST JEFFERSON MEDICAL CENTER
BALANCE SHEETS, CONTINUED
ENTERPRISE FUND
DECEMBER 31, 2007 AND 2006

<u>LIABILITIES AND NET ASSETS</u>	<u>2007</u>	<u>2006</u>
Current liabilities:		
Accounts payable	\$ 13,313,007	\$ 9,691,847
Accrued expenses	18,112,509	14,783,592
Patient deposits and credit balances	1,435,121	1,234,858
Due to government health care programs	1,466,318	1,723,135
Bond interest payable	4,399,364	4,432,497
Current installments of long-term debt	<u>1,780,000</u>	<u>6,020,000</u>
Total current liabilities	40,506,319	37,885,929
Accrued malpractice claims	4,098,491	5,311,790
Accrued deferred compensation	203,340	1,297,733
Interest payable, long-term	1,560,273	719,350
Long-term debt, net of original issue discount	<u>195,710,282</u>	<u>201,868,853</u>
Total liabilities	<u>242,078,705</u>	<u>247,083,655</u>
Net assets:		
Invested in capital assets, net of related debt	(6,848,404)	(17,086,699)
Restricted	23,731,384	27,209,328
Unrestricted	<u>125,514,466</u>	<u>126,002,524</u>
Total net assets	<u>142,397,446</u>	<u>136,125,153</u>
Total liabilities and net assets	<u>\$ 384,476,151</u>	<u>\$ 383,208,808</u>

The accompanying notes are an integral part of these statements.

WEST JEFFERSON MEDICAL CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
ENTERPRISE FUND
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<u>OPERATING REVENUE</u>		
Net patient service revenue	\$ 224,997,989	\$ 223,650,291
Other operating revenue	16,929,520	8,938,548
Total operating revenue	<u>241,927,509</u>	<u>232,588,839</u>
<u>OPERATING EXPENSES</u>		
Salaries and wages	91,741,060	89,895,927
Employee benefits	20,308,087	19,878,239
Professional fees	21,349,109	16,058,733
Medical and general supplies	43,695,856	43,219,415
Purchased services	34,479,003	42,214,897
Other expenses	12,146,613	16,352,841
Depreciation	17,053,354	16,465,231
Total operating expenses	<u>240,773,082</u>	<u>244,085,283</u>
Gain (loss) from operations	<u>1,154,427</u>	<u>(11,496,444)</u>
<u>NON-OPERATING INCOME (EXPENSE)</u>		
Investment income	8,567,875	5,900,167
Interest expense	(6,968,467)	(6,143,315)
Donated assets (Note 9)	4,229,762	222,483
Government operating grants	1,087,910	1,063,698
	<u>6,917,080</u>	<u>1,043,033</u>
Gain (loss) before capital contributions	8,071,507	(10,453,411)
Capital contributions	744,355	566,077
Changes in net assets before assessment by Jefferson Parish and support to others	8,815,862	(9,887,334)
Assessments by Jefferson Parish and support to others	<u>(2,543,569)</u>	<u>(2,668,207)</u>
Change in net assets	6,272,293	(12,555,541)
<u>NET ASSETS</u>		
Beginning of year, as restated (Note 13)	136,125,153	148,680,694
End of year	<u>\$ 142,397,446</u>	<u>\$ 136,125,153</u>

The accompanying notes are an integral part of these statements.

WEST JEFFERSON MEDICAL CENTER
STATEMENTS OF CASH FLOWS
ENTERPRISE FUND
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<u>OPERATING ACTIVITIES</u>		
Revenue collected	\$ 246,997,003	\$ 224,257,999
Cash payments to employees and for related costs	(111,982,609)	(109,646,136)
Cash payments for operating expenses	(107,164,896)	(123,880,191)
Net cash (used in) provided by operating activities	<u>27,849,498</u>	<u>(9,268,328)</u>
<u>INVESTING ACTIVITIES</u>		
Purchases of investment securities	(4,378,794,980)	(3,150,916,444)
Proceeds from sales and maturities of investments	4,379,261,304	3,159,457,550
Investment income and other	9,807,875	7,456,660
Net cash provided by investing activities	<u>10,274,199</u>	<u>15,997,766</u>
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Interest payments, net	(7,304,248)	(6,899,185)
Proceeds from sale of property, plant, and equipment	-	246,952
Capital expenditures	(22,479,222)	(21,898,330)
Capital contributions	451,564	566,077
Principal payments on borrowings	(10,495,000)	(1,460,000)
Net cash used in capital and related financing activities	<u>(39,826,906)</u>	<u>(29,444,486)</u>
<u>NON-CAPITAL FINANCING ACTIVITIES</u>		
Operating grants	810,658	682,549
Proceeds from donations	4,056,470	-
Proceeds from issuance of debt	-	30,712,500
Assessments by Jefferson Parish and support to others	(2,543,569)	(2,668,207)
Net cash provided by non-capital financing activities	<u>2,323,559</u>	<u>28,726,842</u>
Net increase in cash and cash equivalents	620,350	6,011,794
Cash and cash equivalents, beginning of year	6,439,499	427,705
Cash and cash equivalents, end of year	<u>\$ 7,059,849</u>	<u>\$ 6,439,499</u>

Continued

WEST JEFFERSON MEDICAL CENTER
STATEMENTS OF CASH FLOWS, CONTINUED
ENTERPRISE FUND
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Reconciliation of income (loss) from operations to net net cash provided by (used in) operating activities		
Income (loss) from operations	\$ 1,154,427	(11,496,444)
Depreciation	17,053,354	16,465,231
Amortization of bond financing costs	174,968	196,089
Gain on sale of property, plant and equipment	-	(213,865)
Bad debt expense	19,430,889	35,255,036
Equity loss on other investments	(245,661)	(1,299,821)
Changes in operating assets and liabilities:		
Accounts receivable, net	(16,267,468)	(37,527,709)
Inventory and prepaid expenses	(837,045)	(1,747,475)
Other receivables	1,906,073	(6,058,167)
Accounts payable	3,621,160	(1,013,888)
Accrued expenses and other liabilities	1,858,801	(1,827,315)
Net cash provided by (used in) operating activities	<u>\$ 27,849,498</u>	<u>(9,268,328)</u>

NON-CASH TRANSACTIONS

During 2007, the Medical Center received donated land with a value of \$173,292.

The accompanying notes are an integral part of these statements.

WEST JEFFERSON MEDICAL CENTER
STATEMENTS OF NET ASSETS
PENSION TRUST FUND

DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Assets:		
Receivables:		
Accrued dividends	\$ 178,456	\$ 81,818
Employer contributions receivable	1,864,390	2,123,511
Total receivables	<u>2,042,846</u>	<u>2,205,329</u>
Investments		
Cash equivalents	7,210,641	6,808,805
Equity mutual funds	31,111,378	31,498,609
Fixed income mutual funds	17,177,319	13,845,503
Total investments	<u>55,499,338</u>	<u>52,152,917</u>
Total assets	<u>57,542,184</u>	<u>54,358,246</u>
Liabilities:		
Accrued trust fees	25,286	6,085
Due to brokers	293,847	-
	<u>319,133</u>	<u>6,085</u>
Plan net assets available for pension benefits	<u>\$ 57,223,051</u>	<u>\$ 54,352,161</u>

The accompanying notes are an integral part of these statements.

WEST JEFFERSON MEDICAL CENTER
STATEMENTS OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUND

YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Additions:		
Employer contributions	\$ 1,864,390	\$ 2,123,511
Investment income:		
Dividends	2,131,049	1,305,771
Realized gains from sale of investments	409,118	845,475
Net appreciation	1,131,488	3,055,783
	<u>3,671,655</u>	<u>5,207,029</u>
Total additions	<u>5,536,045</u>	<u>7,330,540</u>
Deductions:		
Benefits	(2,478,313)	(2,300,810)
Administrative expenses	(186,842)	(257,999)
	<u>(2,665,155)</u>	<u>(2,558,809)</u>
Total deductions	<u>(2,665,155)</u>	<u>(2,558,809)</u>
Change in plan net assets	2,870,890	4,771,731
Plan net assets at beginning of year	<u>54,352,161</u>	<u>49,580,430</u>
Plan net assets at end of year	<u>\$ 57,223,051</u>	<u>\$ 54,352,161</u>

The accompanying notes are an integral part of these statements.

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

1. Organization and Significant Accounting Policies

Organization

West Jefferson Medical Center (the Medical Center) operates an acute care hospital, physician clinics, medical office buildings, and health and fitness centers. The Medical Center operates under the jurisdiction of the Parish Council of Jefferson Parish, Louisiana (the Parish) as Jefferson Parish Hospital Service District No. 1 and is exempt from federal and state income taxes. The Medical Center reporting entity includes the hospital enterprise fund and a pension trust fund.

Basis of Accounting

The Medical Center's basic financial statements consist of the government-wide statements which include the proprietary fund (the enterprise fund) and the fund financial statements which includes the fiduciary fund (the pension trust fund). The operations of the Medical Center are accounted for in the following fund types:

Proprietary Fund Type

The proprietary fund is used to account for the Medical Center's ongoing operations and activities which are similar to those often found in the private sector. The proprietary fund is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. Net assets are segregated into amounts invested in capital assets (net of related debt), restricted for debt service, restricted for capital projects and unrestricted. The Medical Center's restricted assets are expendable for their purposes. The Medical Center utilizes available restricted assets before utilizing unrestricted assets. The operating statements present increases (revenues) and decreases (expenses) in net assets. The Medical Center maintains one proprietary fund type - the enterprise fund. The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance.

Operating revenues include all charges for service; other revenues include non-operating revenues. The enterprise fund is presented in the government-wide financial statements. The Medical Center uses the accrual basis of accounting for proprietary funds. Under Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting, the Medical Center has elected not to apply Financial Accounting Standards Medical Center pronouncements issued after November 30, 1989. As a governmental entity, the Medical Center also follows certain accounting and disclosure requirements promulgated by the GASB.

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Fiduciary Fund Type

The fiduciary fund, the Retirement Plan for Employees of West Jefferson Medical Center (the Plan), is used to account for assets held by the Medical Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The Medical Center maintains one fiduciary fund type - the pension trust fund. The pension trust fund uses the flow of economic resources measurement focus. All assets and liabilities associated with the operation of this fund are included in the statement of plan net assets. The pension trust fund is used to account for the activity of the Medical Center's employee retirement plan. The pension trust fund is presented in the fund financial statements. Additional information on the pension trust fund is presented in note 8.

Operating and Non-operating Revenue

The Medical Center's primary purpose is to provide diversified health care services to individuals, physicians, and businesses. As such, activities related to the ongoing operations of the Medical Center are classified as operating revenue. Operating revenue includes amounts generated from direct patient care, related support services, gains or losses from disposition of operating properties, and sundry revenue related to the operation of the Medical Center. Interest income from trustee-held investments is reported as a net component of interest expense. Additionally, rental income, gains and losses that are directly related to the ongoing operations of the Medical Center, and gifts, grants, and bequests not restricted by donors for specific purposes are reported as a component of other operating revenue. Investment income, realized and unrealized gains (losses) from board-designated investments, as well as donated assets are reported as a component of non-operating income.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with maturities of three months or less when purchased, excluding designated cash and investments by board designation or other arrangements under trust agreements or with third-party payers. Cash and cash equivalents include temporary cash investments whose use is not limited. The temporary cash investments have original maturities of three months or less at date of issuance. Certain temporary investments internally designated as long-term investments are excluded from cash and cash equivalents.

Patient Accounts Receivable

Patient accounts receivables are carried at a net amount determined by the original charge for the services provided, less an estimate made for contractual adjustments or discounts provided to third party payers, less any payments received and less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Medical Center does not charge interest on patient receivables. Patient receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received. Receivables or payables related to estimated settlements on various risk contracts that the Hospital participates in are reported as estimated third-party pay or receivables or payables. As of December 31, 2007 and 2006, the allowance for doubtful accounts approximated \$37.8 million and \$45.9 million, respectively.

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Investments

Investments are carried at fair value and all investment income, including changes in the fair value of investments is recognized in the Statements of Revenues, Expenses, and Changes in Net Assets.

Designated Cash and Investments

Designated cash and investments include cash, cash equivalents, and investments. These assets are designated as such in the accompanying Balance Sheets as they are held by bond trustees under related indenture agreements or designated as such by the board of directors.

Amounts classified as current assets represent amounts to be used to meet certain debt service requirements and other obligations classified as current liabilities.

Inventory

Inventory, which consists primarily of drugs and supplies, is stated at the lower of cost or market. The cost for drug inventory and operating room special order supplies is determined using the first-in, first-out method. The cost for supplies is determined using the weighted-average method.

Property, Plant, and Equipment

Property, plant, and equipment is stated at cost or, if donated, at fair value at the date of receipt, if known. For donations received from the West Jefferson Service Corporation (the Service Corporation), a related party, donated assets were recorded at an amount equal to the Service Corporation's acquisition cost. Depreciation is computed on the straight-line basis over estimated useful lives as follows:

Land improvements	10 years
Buildings	10-40 years
Fixed equipment	10-25 years
Major movable equipment	5-10 years
Minor equipment	3-5 years

The Hospital recognizes the impairment of capital assets when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. The restoration or replacement of an impaired capital asset is reported as a separate transaction from the associated insurance recovery. The impairment loss is reported net of the associated realized or realizable insurance recovery when the recovery and loss occur in the same year. Insurance recoveries reported in subsequent years are reported as non-operating revenue.

Unamortized Financing Costs

Deferred financing costs are amortized over the period the obligation is expected to be outstanding using the straight-line method.

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Other Assets

Other assets consist primarily of the Medical Center's ownership interest in a laundry cooperative and an ownership interest in a radiosurgery entity, which are both carried under the equity method of accounting.

Net Assets

The Medical Center classifies net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These components are defined as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding debt attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in this component of net assets. Rather, that portion of debt is included in the same component of net assets as the unspent proceeds. At December 31, 2006, approximately \$5.8 million of debt was included in invested in capital assets, net of related debt. There were no such amounts as of December 31, 2007.
- Restricted - This component reports those net assets with externally imposed constraints placed on their use by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component reports net assets that do not meet the definition of either of the other two components.

Net Patient Service Revenue

Substantially all of the Medical Center's net patient service revenue is earned under agreements with third-party payors. Under these agreements, the Medical Center provides medical services to government program beneficiaries and other third-party payers, such as health maintenance organizations, at amounts different from established rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem rates. Net patient service revenue is reported at the estimated net realizable amounts billed to patients, third-party payors, and others for services rendered. The Medical Center's provision for bad debts is classified as a reduction to net patient service revenue. A summary of net patient revenue for the years ended December 31, 2007 and 2006, is as follows:

	2007	2006
Gross patient service revenue	\$ 784,798,663	\$ 778,372,643
Less discounts, allowance, and estimated contractual adjustments under third-party reimbursement programs	540,369,785	519,467,316
Less provision for bad debts	19,430,889	35,255,036
Net patient revenue	\$ 224,997,989	\$ 223,650,291

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

The Medical Center is unable to predict the future course of federal, state, and local regulation or legislation, including Medicare and Medicaid statutes and regulations. Future changes could have a material adverse effect on the future financial results of the Medical Center. The percentage of total gross patient service revenue derived from services furnished to Medicare and Medicaid program beneficiaries, combined, was approximately 44% and 44% for 2007 and 2006, respectively.

Retroactive settlements are provided for in some of the governmental health care programs outlined above, based on annual cost reports. Such settlements are estimated and recorded as amounts due to or from these programs in the accompanying financial statements. The differences between these estimates and final determination of amounts to be received or paid are based on audits by fiscal intermediaries and are reported as adjustments to net patient service revenue when such determinations are made. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. No significant differences are anticipated between the estimated settlements recorded and the final settlements expected to be determined by program representatives. These adjustments resulted in increases to net patient service revenue of \$2,075,000 and \$1,958,000, respectively, in 2007 and in 2006. Estimated settlements through December 31, 2007, for the Medicaid and Medicare programs have been reviewed by program representatives, and adjustments have been recorded to reflect any revisions to the estimates.

The effect of any adjustments that may be made to cost reports still subject to review will be reported in the Medical Center's financial position or results of operations as such determinations are made. For the year ended December 31, 2007, the Medical Center recorded a receivable of \$309,000 for the current year cost report.

Fair Value of Financial Instruments

Financial instruments are described as cash or contractual obligations or rights to pay or to receive cash. The fair value for certain financial instruments approximates the carrying value because of the short-term maturity of these instruments which include cash and cash equivalents, receivables, accounts payable, accrued liabilities, estimated third-party payor settlements, and other current liabilities. The Medical Center's investments and assets limited as to use are carried at fair value on the combined balance sheets. Based on borrowing rates currently available to the Medical Center with similar terms and maturities, the fair value of the long-term debt approximated \$169 million and \$180 million as of December 31, 2007 and 2006, respectively.

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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein. Actual results could differ from those estimates.

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Recent Accounting Pronouncements

GASB Statement No. 50 Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27—This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 27, Accounting for Pensions by State and Local Governmental Employers, to conform with requirements of Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement is effective for periods beginning after June 15, 2007. The Medical Center is assessing the impact of this statement.

Pension Trust

Employer contributions are recognized as revenues in the period in which employee services are performed. The assets of the Plan are invested in various fixed income, equity and short-term money market funds managed by a trustee. Investments are carried at fair value as reported by the Trustee. Fair values are determined by quoted market prices, as available. Dividend income is recognized when earned. All administrative expenses of the Plan are paid by the Plan.

Accumulated plan benefits are those future periodic payments, including lump-sum distributions that are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. Benefits payable under all circumstances—retirement, death, disability, and termination or employment are included, to the extent they are deemed attributable to employee service rendered to the valuation date. Benefits to be provided from annuity contracts excluded from Plan assets are excluded from accumulated Plan benefits.

The actuarial present value of accumulated plan benefits is determined by an independent actuary and is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of December 31, 2007 and 2006 were (a) life expectancy of participants (1984 unisex Pension Mortality Table was used), (b) retirement age assumptions, and (c) investment return. The 2007 and 2006 valuations included assumed average rates of return of 8.0%. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

Reclassifications

The prior year financial statements have been reclassified to conform to the current year presentation.

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

2. Cash and Investments

At December 31, 2007 and 2006, the Medical Center cash consisted of demand deposits with bank balances of \$11,971,473 and \$16,200,138, respectively. The cash accounts were fully secured by federal depository insurance or collateral held by agents of the Medical Center in its name.

Louisiana state statutes authorize the Medical Center to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the state of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions. During the years ended December 31, 2007 and 2006, the Medical Center invested primarily in securities issued by the U.S. Treasury and other federal agencies.

The composition of designated cash and investments December 31, 2007 and 2006, is set forth below:

	Cash and Cash Equivalents	Investments	Total
<u>2007</u>			
Board-designated	\$ 27,793,443	\$ 103,559,265	\$ 131,352,708
1998 Bond Issue:			
Improvement Fund	-	198,930	198,930
Reserve Fund	-	3,660,735	3,660,735
Interest Fund	-	2,825,619	2,825,619
Total 1998 Bond Issue	-	6,685,284	6,685,284
2004A Bond Issue:			
Proceeds Expense Fund	-	2,683,502	2,683,502
Debt Service Reserve Fund	-	8,011,846	8,011,846
Improvement Fund	-	1	1
Total 2004A Bond Issue	-	10,695,349	10,695,349
2004B Bond Issue:			
Interest Fund	-	413,651	413,651
Principal Fund	-	20,213	20,213
Debt Service Fund	-	4,876,021	4,876,021
Proceeds Expense Fund	-	99	99
Total 2004B Bond Issue	-	5,309,984	5,309,984
Total carrying value (at fair value)	\$ 27,793,443	\$ 126,249,882	\$ 154,043,325

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

	Cash and Cash Equivalents	Investments	Total
2006			
Board-designated	\$ 2,293	\$ 121,538,592	\$ 121,540,885
1998 Bond Issue:			
Improvement Fund	-	435,837	435,837
Reserve Fund	-	3,776,891	3,776,891
Interest Fund	-	2,575,594	2,575,594
Total 1998 Bond Issue	-	6,788,322	6,788,322
2004A Bond Issue:			
Proceeds Expense Fund	-	2,566,368	2,566,368
Debt Service Reserve Fund	-	8,779,891	8,779,891
Improvement Fund	-	5,759,436	5,759,436
Total 2004A Bond Issue	-	17,105,695	17,105,695
2004B Bond Issue:			
Interest Fund	-	131,612	131,612
Principal Fund	-	4,325,000	4,325,000
Debt Service Fund	-	4,618,040	4,618,040
Proceeds Expense Fund	-	95	95
Total 2004B Bond Issue	-	9,074,747	9,074,747
Total carrying value (at fair value)	\$ 2,293	\$ 154,507,356	\$ 154,509,649

Credit Risk

Per GASB 40, unless there is information to the contrary, obligations of the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. The following table presents each applicable rating grouped by investment type as of December 31, 2007:

By Investment Type	Fair Value	Rating
Cash deposits, operating funds	\$ 7,059,849	Exempt from Disclosure
Cash deposits, held by Trustee	27,793,443	Exempt from Disclosure
U.S. Government securities	126,249,882	Exempt from Disclosure
Total cash and investments	<u>\$ 161,103,174</u>	

Balance Sheet by Category	Fair Value
Cash deposits, operating funds	\$ 7,059,849
Designated Assets:	
Under bond indenture – held by trustee	22,690,617
By Board for discretionary purposes	131,352,708
Total designated assets	<u>154,043,325</u>
Total cash and investments	<u>\$ 161,103,174</u>

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Concentration, Credit Risk, and Custodial Credit Risk

Louisiana state statutes also require that all of the deposits of the Medical Center be protected by insurance or collateral. The market value of collateral pledged must equal 100% of the deposits not covered by insurance. The bank balances of deposits at December 31, 2007 and 2006, were fully covered by insurance or collateral held by financial institutions in the Medical Center's name.

Per GASB 40, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than five percent (5%) of the market value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. At December 31, 2007, the Medical Center had no investments requiring Concentration of Credit Risk disclosure.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Medical Center will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Medical Center will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Interest Rate Risk

Interest Rate Risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The following table summarizes the Medical Center's segmented time distribution investment maturities by investment type as of December 31, 2007 and 2006.

By Investment Type	Fair Value	<1 Year	1-5 Years	> 5 Years
<u>2007</u>				
Cash deposits, operating funds	\$ 7,059,849	\$ 7,059,849	\$ -	\$ -
Cash deposits, held by Trustee	27,793,443	27,793,443	-	-
U.S. Government securities	126,249,882	79,302,930	46,946,952	-
Total cash and investments	<u>\$ 161,103,174</u>	<u>\$ 114,156,229</u>	<u>\$ 46,946,952</u>	<u>\$ -</u>
<u>2006</u>				
Cash deposits, operating funds	\$ 6,439,499	\$ 6,439,499	\$ -	\$ -
Cash deposits, held by Trustee	2,293	2,293	-	-
U.S. Government securities	154,507,356	113,041,394	38,456,291	3,009,671
Total cash and investments	<u>\$160,949,148</u>	<u>\$ 119,483,186</u>	<u>\$ 38,456,291</u>	<u>\$ 3,009,671</u>

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Pension Trust Fund

Hospital service districts are authorized under Louisiana R.S. 46:10688 to establish and maintain actuarially sound pension and retirement systems making contributions from hospital service district funds. They may make contracts of insurance with any insurance company legally authorized to do business in Louisiana and may enter into other contracts and trust agreements with banks, which are incidental to creating and maintaining an actuarially sound pension and retirement system. At December 31, 2007, the Retirement Plan's investments were held by Regions Morgan Keegan Trust. Investments at December 31, 2007 and 2006 consist of the following mutual funds which are stated at fair value.

Fixed Income:	<u>2007</u>	<u>2006</u>
Federated U.S. Government Trust		
Institutional Fund *	\$ 9,932,096	\$ 7,129,615
Vanguard Short-term Treasury Fund *	7,245,223	6,715,888
	<u>17,177,319</u>	<u>13,845,503</u>
Equity:		
Artisan Sm Cap Value Fund 963 Inv	1,719,018	1,828,410
Amer Cap World Growth & Inc FD CL R5*	3,878,619	3,312,124
Vanguard Institutional Index Fund*	17,505,487	18,804,635
Vanguard Mid Cap Index Fund*	8,008,254	7,553,440
	<u>31,111,378</u>	<u>31,498,609</u>
Cash equivalents:		
Cash	352,691	-
Federated Treasury Money Market Fund*	6,857,950	6,808,805
	<u>7,210,641</u>	<u>6,808,805</u>
Total investments	<u>\$55,499,338</u>	<u>\$52,152,917</u>

* represents investments that are 5% or more of the Plan's net assets.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising interest rates, the Retirement Plan's investment policy limits the maximum for any single fixed income security to 10 years. None of the investments of the Retirement Plan have fixed maturity dates.

Credit Risk

State statutes authorize the Retirement Plan to invest in obligations of the U.S. Treasury, agencies, and instrumentalities; commercial paper rated AAA 1, 2, or 3; repurchase agreements; and the Louisiana Asset Management Pool (LAMP). The Retirement Plan's investment policy limits the Plan's investments to treasury bills, money market funds, commercial paper, U.S. government and agency securities, corporate notes and bonds, common stocks, American Depository Receipts of Non-U.S. companies listed on American exchanges, and stocks of Non- U.S. companies. As of December 31, 2007 and 2006, all investments of the Retirement Plan were rated Aaa by Moody's Investor's Service and AAA by Standard & Poor's and Fitch ratings.

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Retirement Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the investments of the Retirement Plan are held in the name of the Retirement Plan for the years ended December 31, 2007 and 2006.

Concentration of Credit Risk

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of the Retirement Plan's investment in a single issuer. The Retirement Plan's investment policy states that the securities of any one company or government agency cannot exceed ten (10) percent of the total fund, and no more than twenty (20) percent of the total fund can be invested in any one industry. With the exception of U.S. Government securities, no fixed income issue may exceed fifteen (15) percent of the market value of the fixed income portfolio. No investments of the Retirement Plan are in violation of this policy at December 31, 2007 and 2006.

3. Property, Plant and Equipment

The following table summarizes the changes in net property, plant, and equipment for the year ended December 31:

<u>2007</u>	Beginning Balance	Additions	Reclassification/ Retirements	Ending Balance
Land and Land improvements	\$ 19,921,793	\$ 971,050	\$ -	\$ 20,892,843
Building and fixed equipment	170,767,874	4,076,981	-	174,844,855
Equipment	168,973,246	12,802,993	(1,177,416)	180,598,823
Construction in progress	8,816,826	12,087,380	(7,052,948)	13,851,258
	<u>368,479,739</u>	<u>29,938,404</u>	<u>(8,230,364)</u>	<u>390,187,779</u>
Less accumulated depreciation	(214,149,521)	(17,053,354)	944,474	(230,258,401)
Property, plant, and equipment, net	<u>\$ 154,330,218</u>	<u>\$ 12,885,050</u>	<u>\$ (7,285,890)</u>	<u>\$ 159,929,378</u>
<u>2006</u>	Beginning Balance	Additions	Reclassification/ Retirements	Ending Balance
Land and Land improvements	\$ 16,835,800	\$ 3,085,993	\$ -	\$ 19,921,793
Building and fixed equipment	147,742,203	23,025,671	-	170,767,874
Equipment	158,561,933	10,771,282	(359,969)	168,973,246
Construction in progress	23,612,046	20,585,326	(35,380,546)	8,816,826
	<u>346,751,982</u>	<u>57,468,272</u>	<u>(35,740,515)</u>	<u>368,479,739</u>
Less accumulated depreciation	(198,044,259)	(16,465,231)	359,969	(214,149,521)
Property, plant, and equipment, net	<u>\$ 148,707,723</u>	<u>\$ 41,003,041</u>	<u>\$ (35,380,546)</u>	<u>\$ 154,330,218</u>

The Medical Center leases certain major movable and other nonmovable equipment under operating leases, some of which are on a month-to-month basis and others which are on a longer-term basis. Refer to Note 11 for amounts relating to these leases. Rental expense for leased equipment amounted to approximately \$1,406,000 in 2007 and \$1,785,000 in 2006.

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Construction in progress includes projects such as technical and property infrastructure upgrades as well as software and equipment upgrades.

In May 2007, one of the Medical Center's bond insurers directed, under the terms of the trust indenture, that a springing mortgage be recorded on substantially all of the Medical Center's property and equipment.

4. Risk Management

The Medical Center participates in the State of Louisiana patient compensation fund (the Fund). The Fund provides malpractice coverage to the Medical Center for claims in excess of \$100,000 up to \$500,000. According to current state law, medical malpractice liability (exclusive of future medical care awards) is limited to \$500,000 per occurrence. Medical Center management has no reason to believe that the Medical Center will be prevented from continuing its participation in the Fund.

From July 1, 1993 to November 1, 1997, the Medical Center was insured by the LHA Trust Fund for medical malpractice claims. Subsequent to November 1, 1997, the Medical Center has maintained a funded self-insured program against medical malpractice claims and purchased excess general liability coverage up to \$10 million with a \$2 million self-retention. The Medical Center is involved in litigation arising in the ordinary course of business. Claims alleging malpractice liability have been asserted against the Medical Center and are currently in various states of litigation. The Medical Center has accrued approximately \$4,098,000 and \$5,311,000 at December 31, 2007 and 2006, for the estimated loss and litigation expenses related to medical malpractice claims for which the Medical Center is self-insured. Claims have been filed alleging damages in excess of the amount accrued for estimated malpractice costs. It is the opinion of management that estimated malpractice costs accrued are adequate to provide for probable losses resulting from pending or threatened litigation. Additional claims may be asserted against the Medical Center arising from services provided to patients through December 31, 2007. The Medical Center is unable to determine the ultimate cost of the resolution of such potential claims; however, an accrual has been made based on estimates for these claims.

The Medical Center is self-insured for workers' compensation up to \$500,000 per claim and is self-insured for employee group health insurance claims. The Medical Center purchased commercial insurance that provides coverage for workers' compensation claims in excess of the self-insured limits. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are re-evaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors. The following table summarizes the changes in the Medical Center's aggregate claims liability for medical malpractice, workers' compensation, and health insurance.

Year Ended December 31	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2007	\$9,123,798	\$11,516,540	\$11,363,126	\$9,277,212
2006	\$5,330,140	\$12,891,639	\$9,097,981	\$9,123,798

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

5. Long-Term Debt

Long-term debt consisted of the following as of December 31:

	<u>2007</u>	<u>2006</u>
Hospital Revenue Bonds (Series 1998A); 4% - 5.25%; due in installments through 2021	\$ 32,725,000	\$ 34,420,000
Hospital Revenue Bonds (Series 1998B); variable interest rate (ranging from 3.13% - 3.97% in 2007 and 2.96% - 4.00% in 2006); due in installments, beginning in 2022 through 2028	25,000,000	25,000,000
Hospital Revenue Bonds (Series 2004A); 5.85%; due in installments, beginning in 2025 through 2034	81,410,000	81,410,000
Hospital Revenue Bonds (Series 2004B); variable interest rate (ranging from 2.75% - 4.25% in 2007, 2.51% - 3.70% in 2006); due in installments through 2018	28,800,000	37,600,000
Special Community Disaster Loan; interest accrues at 2.74%; principal and interest due in total in 2011	<u>30,712,500</u>	<u>30,712,500</u>
Total	198,647,500	209,142,500
Less unamortized original issue discount	(1,157,218)	(1,253,647)
Less current maturities	(1,780,000)	(6,020,000)
Long-term debt, less current maturities	<u>\$ 195,710,282</u>	<u>\$ 201,868,853</u>

For the years ended December 31, 2007 and 2006, interest expense, before interest income from trustee-held assets of approximately \$1,240,000 and \$1,556,000, respectively, totaled \$8,208,467 and \$7,699,315.

The changes in long-term debt were as follows:

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 209,142,500	\$ 179,890,000
Issuances	-	30,712,500
Payments	<u>(10,495,000)</u>	<u>(1,460,000)</u>
Balance, end of year	<u>\$ 198,647,500</u>	<u>\$ 209,142,500</u>

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

The debt service requirements at December 31, 2007, were as follows:

	<u>Principal</u>	<u>Interest</u>
2008	\$ 1,780,000	\$ 8,188,223
2009	6,495,000	7,956,543
2010	6,740,000	7,713,230
2011	34,732,500	11,949,854
2012	4,205,000	7,333,376
2013 – 2017	22,510,000	33,955,798
2018 – 2022	18,875,000	29,452,611
2023 – 2027	30,770,000	24,773,795
2028 – 2032	48,890,000	14,265,483
2033 – 2035	23,650,000	1,402,830
Total long-term debt	<u>\$ 198,647,500</u>	<u>\$ 146,991,743</u>

Series 1979 Bonds

The Series 1979 bonds were advance refunded in 1985. A portion of the proceeds from a subsequent bond issuance was deposited with an escrow trustee and invested in obligations secured by the U.S. government. The principal and interest income from these invested funds is used to service the debt of the refunded issue. Neither the escrow fund nor the Series 1979 bonds payable are shown in the accompanying Balance Sheets. Series 1979 bonds payable outstanding were \$6,075,000 at December 31, 2007 and \$9,010,000 at December 31, 2006.

Interest Rate Swaps

To take advantage of lower rates of interest, the Medical Center has entered into interest rate swap agreements, as described below, with a major financial institution (the "counterparty"). The agreements are part of a Master Agreement dated August 16, 2004 between the Medical Center and the counterparty. In addition, the agreements incorporate the 2000 International Swap Dealers Association ("ISDA") Master Agreement which includes defined terms and provisions.

Series 1998B Bonds

In November 2004, the Medical Center entered into a floating-to-fixed interest rate swap agreement on the Series 1998B variable-rate bonds. The swap agreement has a notional amount of \$25,000,000. Under the terms of the agreement, which matures on January 1, 2012, the Medical Center pays to the counterparty on January 1st and July 1st fixed interest at the rate of 3.10% and receives from the counterparty a variable rate, paid quarterly, calculated as 68% of the one-month London Interbank Offer Rate (LIBOR) plus or minus the variable bond rate based on the Bond Market Association Municipal Swap Index (BMA). At December 31, 2007 the fair value of this agreement was \$482,964. The net effect of the swap transaction in 2007 was a reduction in the Medical Center's Series 1998B interest expense of \$137,906.

In August 2006, the Medical Center entered into a basis swap agreement which matures on January 1, 2012. The swap agreement has a notional amount of \$25,000,000. Under the terms of this agreement, the Medical Center pays the counterparty on the 1st of each quarter a variable rate computed as 68%

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

of the one-month LIBOR rate and receives from the counterparty 61.75% of the five-year LIBOR rate plus or minus the variable bond rate based on the BMA Swap Index. At December 31, 2007 the fair value of this agreement was \$171,727. The net effect of the swap transaction in 2007 was an increase in the Medical Center's Series 1998B interest expense of \$107,048. The swap agreements on the 1998B bonds are subject to terms that require either party to post additional collateral based on the change in interest rates, the mark-to-market valuation of the swap agreements and/or change in credit rating of either party. At December 31, 2007, the mark-to-market on the November 2004 swap transaction resulted in collateral requirements of \$311,237 which the Medical Center had posted with the counterparty.

Series 2004A Bonds

In August 2004, the Medical Center entered into a fixed-to-floating total return interest rate swap agreement which matures on December 1, 2008. The swap agreement has a notional amount equal to the total bonds issued of \$81.4 million. Under the terms of the agreement, the Medical Center pays the 5.85% fixed rate semi-annual bond coupon payments. The counterparty returns to the Medical Center the 5.85% fixed rate on the bonds. The Medical Center pays the counterparty a semi-annual variable rate of interest computed as BMA plus 70 basis points. The net effect of the swap transaction in 2007 was a decrease in the Medical Center's Series 2004A interest expense of \$1,237,575. At December 31, 2007 the 2004A swap agreement had a fair value of \$1,022,084. The swap agreement on the 2004A bonds is subject to terms that require either party to post additional collateral based on the change in interest rates, the mark-to-market valuation of the swap agreements and/or change in credit rating of either party. At December 31, 2007, the mark-to-market on the 2004A swap transaction resulted in the counterparty having to post collateral for the fair value noted above.

Series 2004B Bonds

In August 2004, the Medical Center entered into a floating-to-fixed interest rate swap agreement which matures on January 1, 2017. The notional amount of the bonds was \$39.2 million. Under the terms of this agreement, the Medical Center pays semi-annually to the counterparty a fixed rate of 3.35% and receives from the counterparty a variable rate, paid monthly, calculated as 68% of the one-month LIBOR plus or minus the variable bond rate based on The Bond Market Association Municipal Swap Index (BMA). At December 31, 2007 the fair value of this agreement was \$463,339. The net effect of the swap transaction in 2007 was a decrease in the Medical Center's Series 2004B interest expense of \$173,655. In August 2006, the Medical Center entered into a basis swap agreement which matures on January 1, 2017. The notional amount of the bonds was \$33.3 million and declines each year until the maturity date. Under the terms of this agreement, the Medical Center pays monthly to the counterparty a variable rate computed as 68% of the one-month LIBOR and receives monthly from the counterparty a variable rate calculated as 61.72% of the five-year LIBOR rate plus or minus the variable bond rate based on the BMA Swap Index. At December 31, 2007 the fair value of this agreement was \$141,267. The net effect of the swap transaction in 2007 was an increase in the Medical Center's Series 2004B interest expense of \$141,727.

The swap agreement on the 2004B bonds is subject to terms that require either party to post additional collateral based on the change in interest rates, the mark-to-market valuation of the swap agreements and/or change in credit rating of either party. At December 31, 2007, the mark-to-market on the 2004B swap transaction resulted in the counterparty having to post collateral for the fair value noted.

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Community Disaster Loan

The Medical Center was granted a Community Disaster Loan (the "Loan") from the federal government. The Loan proceeds, in the amount of approximately \$31 million, were received by the Medical Center on February 22, 2006. The terms of the Loan call for interest to accrue at 2.74% annually to be repaid with the principal when the Loan becomes due in 2011. At December 31, 2007 the Medical Center had accrued \$1,560,272 of interest expense on the Loan.

Debt Compliance

As of December 31, 2006, due to the losses recorded in 2006 as a result of Hurricane Katrina, the Medical Center was not in compliance with debt coverage ratio covenants under the terms of the 1998 and 2004 series bonds and the interest rate swap agreements on the 1998B, 2004A and 2004B series bonds. The Medical Center obtained from its bond insurers agreements to forbear from the exercise of their respective rights and remedies available as a result of the occurrence and continuance of the Identified Defaults through January 1, 2008. In addition, the Medical Center obtained waivers of debt coverage ratio noncompliance on the 1998B, 2004A and 2004B Series bonds through June 30, 2007 from the interest rate swap counterparty. As of December 31, 2007, the Medical Center was in compliance with its debt covenants. In May 2007, one of the Medical Center's bond insurers directed, under the terms of the trust indenture, that a springing mortgage be recorded on substantially all of the Medical Center's property and equipment.

Subsequent Activity

The \$28.8 million of 1998B variable rate bonds are auction rate securities under which the variable interest rates are set through weekly auctions. As a result of the collateralized debt obligation (CDO) issue that affected the financial markets in the first quarter of 2008, auctions of auction rate securities could not be successfully completed. While the Medical Center's auction rate securities have no connection to the CDO issue, the weekly auctions of the 1998B bonds were similarly impacted by the issue which caused the 1998B auctions to be unsuccessful. The variable interest rates on the 1998B bonds are based on the 30-day Telerate/BBA LIBOR rate, which was 2.716% at April 15, 2008. The auction terms indicate that should the auctions not be successfully completed, the interest rates could increase to a maximum of two times the base rate noted above. The Medical Center cannot predict the impact of the auction rates in 2008 should the weekly auctions of the 1998B bonds continue to be unsuccessful.

6. Community Benefits (Unaudited)

Services provided to the indigent and benefits provided to the broader community by the Medical Center are summarized below for the years ended December 31:

	<u>2007</u>	<u>2006</u>
Benefits for the indigent and uninsured (unpaid costs):		
Traditionally charity care and uninsured	\$ 9,688,733	\$ 16,892,121
Benefits for the broader community:		
Unpaid costs of Medicare and Medicaid programs	18,102,491	20,116,797
Other community benefits	3,046,433	3,007,783
Total quantifiable benefits for the broader community	<u>\$ 30,837,657</u>	<u>\$ 40,016,701</u>

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Benefits for the indigent include services provided to persons who cannot afford health care because of inadequate resources or who are uninsured. This amount includes the estimated costs of services associated with traditional charity care and other services such as emergency room services.

Benefits for the broader community include the unpaid cost of treating Medicare and Medicaid beneficiaries in excess of the government payments. These benefits also include services provided to other needy populations that may not qualify as indigent but that require special services and support. Examples include the cost of health promotion and education, an assistance program for the elderly, health clinics and screenings, special assessments by the Parish to fund MITs, health care for the Parish correctional center, and funding assistance for a nonprofit community clinic, all of which, in management's opinion, benefit the broader community.

7. Governmental Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes, and regulations by health care providers in recent years. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Medical Center is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations. However, assessment of our compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Legislation and regulation at all levels of government have affected and are likely to continue to affect the operation of the Medical Center. Federal health care reform legislation proposals debated in Congress in recent years have included significant reductions in Medicare and Medicaid program reimbursement to hospitals and the promotion of a restructured delivery and payment system focusing on competition among providers based on price and quality, managed care, and steep discounting or capitated payment arrangements with many, if not all, of the Medical Center's principal payers. It is not possible at this time to determine the impact on the Medical Center of government plans to reduce Medicare and Medicaid spending, government implementation of national and state health care reform, or market-initiated delivery system and/or payment methodology changes. However, such changes could have an adverse impact on operating results, cash flows, and estimated debt service coverage of the Medical Center in future years.

8. Employee Benefits

The Retirement Plan for Employees of West Jefferson Medical Center

West Jefferson Medical Center operates under the jurisdiction of the Parish Council of Jefferson Parish, Louisiana (the "Parish") as Jefferson Parish Hospital Service District No. 1. A Louisiana Attorney General opinion empowers hospital service districts to create pension plans for officers and employees and to fund the plan with district funds.

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

The Retirement Plan for Employees of West Jefferson Medical Center (the "Plan") is a single-employer, non-contributory, defined public employee retirement system (PERS). The Plan covers certain employees of West Jefferson Medical Center (the Employer) who met certain length of service requirements through December 31, 2005 and is funded through employer contributions and investment earnings.

Plan Description

The Medical Center contributes to the Retirement Plan for Employees of West Jefferson Medical Center (the Plan). No new entrants were allowed to participate in the plan after December 31, 2005. As a governmental entity, the Plan provides disclosures required by the Governmental Accounting Standards Board (GASB).

The Medical Center's total payroll for all employees and the total covered payroll for the year ended December 31, 2007, amounted to approximately \$91,741,000 and \$49,735,000, respectively, and \$89,896,000 and \$58,109,000, respectively, for the year ended December 31, 2006. Covered payroll refers to all compensation paid by the Medical Center to active employees covered by the Plan on which contributions to the Plan are based.

	<u>2007</u>	<u>2006</u>
Active employees	919	1,128
Retirees and beneficiaries currently receiving benefits	712	667
Terminated vested participants	462	368
Total plan membership*	<u>2,093</u>	<u>2,163</u>

*The total retirees and beneficiaries count of 462 includes 67 participants who, under an amendment to the Plan effective November 1, 2007, elected enhanced early retirement benefits under the Voluntary Retirement Incentive Program (VRIP) with effective retirement dates ranging from January 1, 2008 to April 1, 2008. See "Plan Amendments" discussed below.

Eligibility Requirements

An employee is eligible to participate in the Plan as of the date they have completed one year of service of 1,000 hours or more and attained at the age of 21. No new entrants are allowed to participate in the Plan after December 31, 2005.

Benefits Retirement

The Plan provides retirement benefits as well as death and disability benefits. Prior to July 1, 2002, all benefits were fully vested after 10 years of credited service. Effective July 1, 2002, all employees become fully vested after 5 years of credited service. The basic annual retirement benefit at age 65 is a benefit payable for life in an amount equal to the number of years of credited service up to 30 years, multiplied by the sum (1) 1.2 percent of final average monthly compensation (2) 0.65 percent of final average monthly compensation in excess of "covered" compensation," which is defined as the average of the Social Security Taxable Wage Base for the 35-year period ending in the year in which social security normal retirement age is attained. Final average monthly compensation is defined as the monthly compensation of a participant averaged over the 5 consecutive calendar years which produces the highest monthly average within the last 10 calendar years preceding the earlier of retirement or termination of employment. Employees with 10 years of credited service may elect to receive a reduced benefit beginning at age 55.

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Deferred and Disability Benefits

A Plan member leaving employment after 10 years of credited service but before attaining retirement age or who ceases active employment because of total and permanent disability after 10 years of credited service but before attaining retirement age is eligible for deferred benefits or may elect to receive reduced benefits at age 55.

Survivor Benefits

The survivor benefit provided under the Plan is a death benefit for a vested participant in the form of survivor annuity. Such annuity payments are generally equal to 50 percent of the amount which would be payable to the participant if he or she had survived and elected to commence receiving a retirement income at the earliest date allowed under the Plan.

Contributions

The employer is required to contribute amounts necessary to provide the benefits under the Plan determined by the application of accepted actuarial methods and assumptions.

Plan Termination

The Medical Center has the right under the Plan to discontinue its contributions at anytime and to terminate the Plan. See further discussion below under "Plan Amendment."

Contributions Required and Contributions Made

The funding policy of the Plan for periodic employer contributions at actuarially determined rates that are sufficient to pay benefits when due. The actuarial funding method used to determine the normal cost and the unfunded actuarial accrued liability, amortized over 30 years, for purposes of determining contribution requirements is the entry age normal cost method. The significant actuarial assumptions underlying the actuarial method used to compute the contribution requirement are the same as those used to compute the pension benefit obligation.

The actuarially determined contribution requirement for 2007, accrued by the Plan, is \$1,864,390. The actual contribution paid by the employer during 2007 relating to the 2006 contribution requirement was \$2,123,511. The 2007 contribution requirement consists of (a) \$1,044,753 normal cost, (b) \$681,534 amortization of the unfunded actuarial accrued liability and (c) \$138,103 net interest cost. The actuarially determined contribution requirement for 2006, accrued by the Plan, was \$2,123,511. The 2006 contribution requirement consists of (a) \$951,233 normal cost, (b) \$1,014,981 amortization of the unfunded actuarial accrued liability and (c) \$157,297 net interest cost. The actual contribution paid by the employer during 2006 relating to the 2005 contribution requirement was \$2,739,608.

Funding Status

The amount shown below as pension benefit obligation, determined as part of an actuarial valuation as of January 1, 2007, represents a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits.

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

The following is a summary for the changes in the actuarial present value of accumulated plan benefits for the years ended December 31, 2007:

Annual pension cost and net pension obligation:	
Annual required contribution	\$1,864,390
Contribution made (related to prior year obligations)	<u>(2,123,511)</u>
Decrease in net pension obligation	(259,121)
Net pension obligation, beginning of year	<u>2,123,511</u>
Net pension obligation, end of year	<u><u>\$1,864,390</u></u>

Significant actuarial assumptions used in the valuation include a rate of return on the investment of present and future assets of 8% per year, compounded annually, and projected salary increases based on merit of 3% per year compounded annually.

Changes in Accumulated Plan Benefits

The following is a summary of the changes in the actuarial present value of accumulated plan benefits for the years ended December 31:

	<u>2007</u>	<u>2006</u>
Actuarial present value of accumulated plan benefits at beginning of year	<u>\$ 53,840,766</u>	<u>\$ 49,405,401</u>
Increase (decrease) attributable to:		
Benefits accumulated, including actuary loss	2,423,270	2,874,005
Assumed interest from beginning of year	4,209,913	3,862,170
Benefits paid	(2,481,440)	(2,300,810)
Plan Amendments	7,154,444	-
Net increase	<u>11,306,187</u>	<u>4,435,365</u>
Actuarial present value of accumulated plan benefits at end of year	<u><u>\$ 65,146,953</u></u>	<u><u>\$ 53,840,766</u></u>

Trend Information

Historical trend information as of January 1 is presented below to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension</u>
December 31, 2007	\$1,864,390	100%	\$1,864,390
December 31, 2006	\$2,123,511	100%	\$2,123,511
December 31, 2005	\$2,739,608	100%	\$2,739,608

The 2007 audited financial statements of the Plan include certain required supplementary information related to net actuarial value of assets and accrued liabilities, funded ratios, and annual covered payroll.

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Tax Qualification

The Plan is a tax qualified plan under IRS Code Section 401(a).

Plan Amendments

In 2005, the Medical Center adopted a change to the Plan that amends the Plan effective January 1, 2006. The change freezes participation after December 31, 2005 (no new participants) and offer active participants as of January 1, 2006 a one-time irrevocable election to either (1) freeze their benefits under the Plan as of December 31, 2005, with no future accruals but with enhanced benefits available under a new 403(b) Defined Contribution Plan (the "new Defined Contribution Plan"), or (2) continue further accruals under the Plan after December 31, 2005, but without the enhanced benefits otherwise available under the new Defined Contribution Plan (see below).

In 2007, the Medical Center adopted an amendment to the new Defined Contribution Plan effective November 1, 2007. The change provides enhanced retirement benefits to eligible participants electing retirement under the Voluntary Retirement Incentive Program (VRIP) by December 17, 2007. Participants age 55 or older with at least 20 years of credited service by December 31, 2007 were granted the most favorable combination of 10 total additional years of age and service (with a forty year service cap) if they retired under the VRIP with an approved retirement date ranging from January 1, 2008 to April 1, 2008. Of a total of 119 eligible employees, 67 participants elected to accept enhanced retirement benefits under the VRIP. The Plan's actuarial accrued liability increased \$5,903,534 as a result of these elections under the VRIP.

Other Benefits

The Medical Center provides a supplemental executive retirement plan (SERP) as well as a contributory flexible benefit plan to certain key employees. The Medical Center's contribution to the plan in 2006 was \$146,000 while 2007 reflected a credit of approximately \$964,000 due to forfeitures of unvested executive supplemental pension benefits. Net assets and liabilities associated with the plans were approximately \$203,000 and \$1,298,000 at December 31, 2007 and 2006, respectively, and are included in noncurrent assets and noncurrent liabilities in the accompanying combined financial statements.

Defined Contribution 403(b) Plan

All new employees after December 31, 2005 and any new employees who elected out of the Plan (see above) are eligible to join the Medical Center's new Defined Contribution 403(b) Plan. Employer contributions to the 403(b) plan totaled \$1,445,945 and \$1,132,793 for the year ended, December 31, 2007, and 2006, respectively. New employees are immediately eligible to make pre-tax contributions to the plan and receive employer matching contributions. To receive the employer annual non-discretionary contribution based on years of service, employees must complete at least 12 months of service and 1,000 hours by December 31st of the current plan year.

9. Related Parties

The Service Corporation operates under the jurisdiction of the Parish Council of Jefferson Parish and the management of a board of directors appointed by the board of directors of the Medical Center. The primary purpose of the Service Corporation is to support the activities of the Medical Center and to develop and facilitate various health service activities, including joint venture activities, for the benefit

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

of the Medical Center, as authorized by Louisiana Statutes and Federal Regulations. The Service Corporation is the leasing agent for various medical office buildings owned by the Medical Center.

Included in the Service Corporation's results are four joint ventures. The joint ventures are an MRI, a CT Scan, and an ambulatory surgery center, each of which the Service Corporation owns 50%, and a radiosurgery center of which the Service Corporation owns a 64.4% interest. The joint ventures were recorded using the equity method for investment.

The Service Corporation and its joint ventures purchase services from, or on behalf of, the Medical Center including personnel, occupancy and other costs. These costs were \$350,000 and \$486,000 in 2007 and 2006, respectively, of which \$351,000 and \$177,000, respectively, was payable to the Medical Center as of December 31, 2007 and 2006, respectively.

The Medical Center also pays the Service Corporation fees for managing the professional office buildings and other services. In 2007 and 2006 the Service Corporation earned approximately \$212,000 and \$215,000 respectively. As of December 31, 2007 and 2006 the Service Corporation had accounts receivable due from the Medical Center of approximately \$327,000 and \$207,000, respectively.

During 2005, the indigent care policy was replaced with a new policy where the Service Corporation donates funds to the Medical Center for various activities that benefit the Medical Center and the surrounding community. For the year ending December 31, 2007, the Service Corporation donated \$4,000,000 cash to the Medical Center. The Service Corporation also donated property with a purchase value of \$173,292. For the year ended December 31, 2006, the Service Corporation did not donate funds to the Medical Center.

Effective January 1, 2000, the Medical Center entered into a lease with the Service Corporation to lease imaging equipment. The lease payments concluded in August 2006. For the years ending December 31, 2007 and 2006, the amounts paid to the Service Corporation related to this lease were \$0 and \$161,000, respectively.

The Medical Center paid no amounts to members of its board of directors for compensation or per diem in 2007 and 2006. Board members are provided health insurance benefits under the Medical Center's health insurance plan.

10. Concentrations of Credit Risk

The Medical Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables due from patients and third-party payers was as follows:

	December 31	
	2007	2006
Medicare	20 %	19 %
Medicaid	11 %	9 %
Managed care	51 %	51 %
Other	13 %	15 %
Self-pay	5 %	6 %
	100 %	100 %

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

11. Operating Leases and Subsequent Events

The Medical Center has entered into several long-term operating leases. The future commitments resulting from these leases are as follows:

2008	\$	971,065
2009		604,100
2010		494,671
2011		365,132
2012		365,132
Thereafter		62,665
	\$	<u>2,862,765</u>

Subsequent to year end, the Medical Center sold the assets of its home health and hospice operations for a nominal gain.

12. Effects of Hurricane Katrina

As a direct result of Hurricane Katrina, the Medical Center incurred an estimated \$1.9 million of facility and equipment damage and incurred approximately \$5.2 million in additional incremental expenses. While the Medical Center carries both business interruption and property damage insurance, due to insurance coverage limitations the Medical Center may not be reimbursed in total under its casualty and business interruption insurance coverage. The Medical Center engaged outside consultants to assist with preparing claims under both types of coverage. At December 31, 2006 the Medical Center had not received any reimbursement from its property damage or business interruption coverage and did not record any amounts that might be received under these coverages.

On August 18, 2006 the Medical Center initiated legal proceedings in U.S. District Court, Eastern District of Louisiana, against its business interruption insurance carrier seeking to recover amounts the Medical Center believes it is due under its business interruption coverage. In August 2007, the Medical Center settled its outstanding business interruption and property damage insurance claims resulting from Hurricane Katrina. The Medical Center received payments of approximately \$5.1 million to settle these claims. As a result of the settlement, the Medical Center released its claims against its insurer and dismissed the litigation initiated in August 2006. Of the settlement amount, approximately \$4.8 million was included in other operating revenues and approximately \$300,000 included as other current liabilities as the amount was due to a third party at December 31, 2007.

The Medical Center also engaged consultants to assist it in submitting requests for reimbursement to the Federal Emergency Management Agency ("FEMA") for those qualifying expenses that, due to insurance coverage limitations, may not be reimbursed under its casualty or business interruption insurance. In 2006, the Medical Center received approximately \$1.5 million of reimbursements from FEMA, the majority of which was recorded as other non-operating income. At December 31, 2006 the Medical Center recorded a \$381,000 receivable for amounts FEMA reimbursed in early 2007. For the remainder of 2007, the Medical Center received approximately \$172,000 from FEMA covering reimbursement for property damages not covered by insurance.

WEST JEFFERSON MEDICAL CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

At December 31, 2007, the Medical Center was advised that approximately \$1.5 million of reimbursements were to be received from FEMA in early 2008 and recorded this amount as a receivable and as other non-operating income. In addition, the Medical Center recorded a receivable of \$148,000 representing amounts expended on projects for which FEMA has obligated funding. The Medical Center continues to work with FEMA to obtain any remaining reimbursements and has not recorded any other amounts that may be received from FEMA as recovery is not certain.

The Medical Center was granted a Community Disaster Loan (the "Loan") from the federal government. The Loan proceeds, in the amount of approximately \$31 million, were received by the Medical Center on February 26, 2006. The terms of the Loan call for interest to accrue at 2.74% annually to be repaid with the principal when the Loan becomes due in 2011. At December 31, 2007 the Medical Center had accrued approximately \$1.6 million of interest on the Loan.

13. Restatement

The Medical Center identified an error in the gross patient receivables as previously recorded. This error resulted in a restatement which reduced receivables and unrestricted net assets by approximately \$8.8 million as of December 31, 2005.

**RETIREMENT PLAN FOR EMPLOYEES OF
WEST JEFFERSON MEDICAL CENTER
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
December 31, 2001 through 2007**

Year	Annual Required Contribution	Percentage Contributed
2007	\$ 1,864,390	100%
2006	\$ 2,123,511	100%
2005	\$ 2,739,608	100%
2004	\$ 2,483,379	100%
2003	\$ 1,980,141	100%
2002	\$ 1,577,881	100%
2001	\$ 1,016,964	100%

**SCHEDULE OF FUNDING PROGRESS
December 31, 2001 through 2007**

(1) Actuarial Valuation Date	(2) Actuarial Value of Assets (AVA)	(3) Actuarial Accrued Liability (AAL)	(4) Actuarial Accrued (Prefunded) Liability (UAAL) (3)-(2)	(5) Funded Ratio (2)/(3)	(6) Annual Covered Payroll	(7) UAAL as a Percent of Payroll (4)/(6)
01/01/08	\$ 57,248,337	\$ 73,017,274	** \$ 15,768,937	78.4%	\$ 49,734,574	31.7%
01/01/07	\$ 54,358,247	\$ 62,644,610	\$ 8,286,363	86.8%	\$ 58,108,577	14.3%
01/01/06	\$ 45,636,913	\$ 57,977,462	\$ 12,340,549	78.7%	\$ 61,076,105	20.2%
01/01/05	\$ 43,037,997	\$ 56,595,243	\$ 13,557,246	76.0%	\$ 62,387,862	21.7%
01/01/04	\$ 40,899,923	\$ 52,037,852	\$ 11,137,929	78.6%	\$ 60,701,967	18.3%
01/01/03	\$ 36,200,000	\$ 51,120,377	\$ 14,920,377	70.8%	\$ 48,455,441	30.8%
01/01/02	\$ 39,700,000	\$ 45,712,387	\$ 6,012,387	86.8%	\$ 44,903,940	13.4%
01/01/01	\$ 41,300,000	\$ 42,020,625	\$ 720,625	98.3%	\$ 42,532,749	1.7%

** Reflects increase in Actuarial Accrued Liability of \$5,903,534 due to retirement of 67 participates with enhanced benefits under the Voluntary Retirement Incentive Program (VRIP).

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the preceding required supplementary scheduled was determined as part of the actuarial valuations dates indicated. Additional information as of the latest valuation follows:

Valuation date	January 1, 2008
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	3.00%
Projected social security increase	3.00%
Cost of living adjustment	None

See independent auditors' report.

WEST JEFFERSON MEDICAL CENTER

SINGLE AUDIT REPORTS

DECEMBER 31, 2007

P&N Postlethwaite
& Netterville

A Professional Accounting Corporation

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WEST JEFFERSON MEDICAL CENTER

Table of Contents

	Page
Report on Internal Control over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	1
Report on Compliance with Requirements Applicable to the Major Program, On Internal Control Over Compliance in Accordance With OMB Circular A-133 and the Schedule of Expenditures of Federal Awards	3
Schedule of Expenditures of Federal Awards	5
Notes to Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	7



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
West Jefferson Medical Center

We have audited the financial statements of the West Jefferson Medical Center (the Medical Center) as of and for the year ended December 31, 2007, and have issued our report thereon dated April 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Medical Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Medical Center's financial statements that is more than inconsequential will not be prevented or detected by the Medical Center's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2007-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Medical Center's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency referred to above, we consider item 2007-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2007-2.

This report is intended solely for the information and use of the Medical Center, the Medical Center's management; federal, state and city awarding agencies; and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Nettville

Metairie, Louisiana
April 18, 2008



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
West Jefferson Medical Center

Compliance

We have audited the compliance of the West Jefferson Medical Center (the Medical Center) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. The Medical Center's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Medical Center's management. Our responsibility is to express an opinion on the Medical Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Medical Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Medical Center's compliance with those requirements.

In our opinion, the Medical Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the Medical Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Medical Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over compliance.

A control deficiency in the Medical Center's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Medical Center's ability to administer a federal program such that there is more than a remote likelihood that non compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Medical Center's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Medical Center's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Medical Center as of and for the year ended December 31, 2007, and have issued our report thereon dated April 18, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Medical Center, the Medical Center's management; federal, state and city awarding agencies; and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Nettville

Metairie, Louisiana
April 18, 2008



WEST JEFFERSON MEDICAL CENTER

Schedule of Expenditures of Federal Awards

For the year ended December 31, 2007

Federal Grantor/Program Title	CFDA Number	Grant Number	Federal Expenditures
<u>U.S. Department of Homeland Security:</u>			
Pass-through Awards:			
Disaster Grants - Public Assistance	97.036	FEMA-LA-DR1603	\$ 1,713,027
Direct Awards:			
Special Community Disaster Loan (note 4)	97.030	EMT-2006-LF-1603LA38	<u>-</u>
Total Federal Expenditures			<u>\$ 1,713,027</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

WEST JEFFERSON MEDICAL CENTER

Notes to Schedule of Expenditures of Federal Awards

December 31, 2007

(1) General

The accompanying Schedule of Expenditures of Federal Awards presents the federal grant activity of the West Jefferson Medical Center (the Medical Center). The Medical Center's reporting entity is defined in note 1 to the financial statements for the year ended December 31, 2007. All Federal financial awards have been included on the Schedule.

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the Medical Center's financial statements for the year ended December 31, 2007.

(3) Relationship to Basic Financial Statements

Federal awards are included in statement of revenues, expenses and changes in net assets as follows:

Government operating grants	\$ 1,087,910
Less state funding	(119,238)
Capital contributions	<u>744,355</u>
	\$ <u>1,713,027</u>

The Special Community Disaster Loan is included in long-term debt in the balance sheet and further described in Note 5 to the Medical Center's financial statements for the year ended December 31, 2007.

(4) Loans Payable to Federal Agency

The Medical Center received a Special Community Disaster Loan (the "Loan") from the federal government in February 2006 in the amount of \$30,712,500. The terms of the Loan call for interest to accrue at 2.74% annually to be repaid with the principal when the Loan becomes due in 2011.

WEST JEFFERSON MEDICAL CENTER

Schedule of Findings and Questioned Costs

Year ended December 31, 2007

(1) Financial Statements

- (a) The type of auditor's report issued: unqualified opinion
- (b) Significant deficiencies in internal control were disclosed by the audit of the basic financial statements: yes; Material weaknesses: yes
- (c) Noncompliance which is material to the basic financial statements: no

(2) Federal Awards

- (a) Significant deficiencies in internal control over major program: none reported; Material weaknesses: no
 - (b) The type of report issued on compliance for major program: unqualified
 - (c) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: no
 - (d) Identification of major program:
 - Department of Homeland Security – CFDA No. 97.036 – Public Assistance Grants
 - (e) Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
 - (f) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: no
- (3) Findings Relating to the Financial Statements Reported in accordance with *Government Auditing Standards*:**

Finding 2007-1

Medicare/Medicaid Receivables

Condition: In the year end reconciliation process related to patient receivables, an error was identified in the methodology used to calculate specific receivables.

Criteria: As required by U.S. generally accepted accounting principal, receivables should be presented at net realizable value.

Effect: The revaluation of the specific receivables resulted in a prior period adjustment.

Cause: A previous method used was no longer valid.

Recommendation: The Medical Center has a process to prepare monthly reconciliations and review for appropriate support of reconciling items. We recommend a review of the reconciliation process with a periodic review of reconciling items.

Agency Response: Remediated. The Medical Center has revised its receivable reconciliation process to insure that any reconciling items are highlighted and resolved during the month-end reconciliation process. In addition, the Medical Center has added an account to its general ledger to separately record the sub-ledger balance of receivables to insure that these amounts agree each period.

Finding 2007-2

Bid Compliance

Condition: In our testing of bids, we noted one contract for which bids were not solicited as required by Louisiana Revised Statutes LSA-RS Title 38:2212 and other sections as applicable.

Criteria: As required by LSA-RS Title 38:2212.1 A.(1)(a) "All purchases of any materials or supplies exceeding the sum of twenty thousand dollars to be paid out of public funds shall be advertised and let by contract to the lowest responsible bidder who has bid according to the specifications as advertised, and no such purchase shall be made except as provided in this Part."

Effect: The Medical Center did not comply with the above requirement.

Cause: The issue resulted from the need to provide a post-Hurricane Katrina emergency water source before the beginning of the 2006 hurricane season. In addition, the hurricane caused many local businesses to close, or caused many to delay returning to the area. This situation made obtaining proposals difficult. The Medical Center considered the drilling of the wells an emergency priority and as such, due to the short construction time frame, accepted the recommendation of other area hospitals to utilize the same vendor which would shorten the construction time as the vendor's equipment was already in the area.

Recommendation: The Medical Center has procedures and policies related to compliance in this area. Any potential deviations should be researched and documented accordingly, with appropriate approvals as permitted by LSA-RS.

Agency Response: Remediated. The Medical Center has in place a dedicated employee who is responsible for soliciting bids as required by Louisiana Revised Statutes governing such activity. The Medical Center will work with its Compliance Officer to insure that the Medical Center refers all solicitation requests to the designated employee. The Compliance Officer will insure that the Medical Center complies with its policies and procedures.

(4) Findings and Questioned Costs relating to Federal Awards: none

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors
Jefferson Parish Hospital Service District No. 1

We have audited the financial statements of the Jefferson Parish Hospital Service District No. 1 (the Service District) as of and for the year ended December 31, 2007, and have issued our report thereon dated April 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Service District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Service District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Service District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Service District's financial statements that is more than inconsequential will not be prevented or detected by the Service District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Service District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Service District, the Service District's management; federal, state and city awarding agencies; and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite + Netterville

Metairie, Louisiana
April 18, 2008