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Management's Discussion and Analysis and Combined Basic Financial Statements

Jefferson Parish Hospital Service District No. 1

Years ended December 31, 2003 and 2002, with Report of Independent Auditors

Jefferson Parish Hospital Service District No. 1

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Years ended December 31, 2003 and 2002

Contents

Jefferson Parish Hospital Service District No. 1

Management's Discussion and Analysis

December 31, 2003

This section of Jefferson Parish Hospital Service District No. 1's (the "Service District") annual financial report provides important background information and management's analysis of the Service District's financial performance during the year ended December 31, 2003. Please read this section in conjunction with the combined basic financial statements beginning on page 2 and the notes to the combined basic financial statements beginning on page 6 in this report.

Required Financial Statements

The combined basic financial statements in this report are presented using Governmental Accounting Standards Board ("GASB") accounting principles. These financial statements offer short-term and long-term financial information about the Service District's activities.

The combined 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). It also provides 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 combined statements of revenues, expenses, and changes in net assets. This statement measures 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 combined 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 to 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.

Financial Analysis of the Service District

The combined balance sheets and the combined 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.

Balance Sheets

A summary of the Service District's condensed combined balance sheets is presented in Table 1 below:

TABLE 1
Condensed Combined Balance Sheets

	December 31 2003	2002	Dollar Change	Percent Change
Total current assets	**$ 63,796,207**	$ 62,841,167	$ 955,040	2%
Property, plant, and equipment – net	**132,839,875**	121,663,470	11,176,405	9%
Board-designated investments	**104,783,466**	123,141,874	(18,358,408)	(15)%
Trustee-held assets	**17,744,211**	21,640,876	(3,896,665)	(18)%
Other assets	**5,297,805**	4,451,558	846,247	19%
Total assets	**$ 324,461,564**	$ 333,738,945	$ (9,277,381)	(3)%
Current liabilities	**$ 23,317,447**	$ 26,279,412	$ (2,961,965)	(11)%
Long-term debt and other long-term liabilities	**109,666,486**	116,284,493	(6,618,007)	(6)%
Total liabilities	**132,983,933**	142,563,905	(9,579,972)	(7)%
Invested in capital assets, net of related debt	**20,396,107**	2,782,510	17,613,597	633%
Restricted net assets	**17,744,211**	21,640,876	(3,896,665)	(18)%
Unrestricted net assets	**153,337,313**	166,751,654	(13,414,341)	(8)%
Total liabilities and net assets	**$ 324,461,564**	$ 333,738,945	$ (9,277,381)	(3)%

During 2003, the Service District's total assets decreased by approximately $9,277,000 (or approximately 3%) to $324.5 million.

Property, Plant, and Equipment

The following table presents the components of property, plant, and equipment at December 31, 2003 and 2002.

TABLE 2
Property, Plant, and Equipment

	December 31 2003	December 31 2002	Dollar Change	Percent Change
Land and land improvements	**$ 15,047,837**	$ 13,939,873	$ 1,107,964	8%
Building and fixed equipment	**141,205,563**	121,637,369	19,568,194	16%
Equipment	**140,238,696**	126,526,167	13,712,529	11%
Subtotal	**296,492,096**	262,103,409	34,388,687	13%
Less accumulated depreciation	**(171,760,741)**	(159,448,050)	(12,312,691)	(8)%
Construction in progress	**8,108,520**	19,008,111	(10,899,591)	(57)%
Property, plant, and equipment, net	**$ 132,839,875**	$121,663,470	$ 11,176,405	9%

Property, plant, and equipment increased approximately $11.2 million, or 9%, in 2003 as the Service District continued to enhance existing facilities. Construction in progress decreased approximately $10.9 million, or 57%, as work on major projects was completed and capitalized in 2003.

Major projects funded or completed in 2003 included the following:

- The new Oakwood Wellness Center which opened in July 2003;
- The new Hyperbaric Treatment Center which opened in June 2003;
- Construction of the new Child Care Education Center scheduled to open in 2004;
- Renovation of the cafeteria and vending area;
- Relocation of the Elder Plus office;
- Construction of the ambulatory surgery joint venture which opened in January 2003; and
- Renovation of suites in the Physician Office Buildings.

In Table 3, the Service District's fiscal year 2004 capital budget projects spending of up to $15.8 million for capital projects (excluding those projects approved in prior years). These projects will be financed primarily from board-designated assets, with the remaining funds from the 1998 bond offering and funds generated from operations. More information about the Service District's capital assets is presented in the notes to the combined basic financial statements.

TABLE 3
Fiscal Year 2004 Capital Budget

Equipment purchases	$ 10,757,000
Construction/renovation	5,043,000
Prior year approved items	13,685,000
Total	$ 29,485,000

Long-Term Debt

At year end, the Service District had $113,170,000 in short-term and long-term debt. Total debt decreased in the current year by approximately $6.4 million due to principal payments. More detailed information about the Service District's long-term liabilities is presented in the Notes to Combined Basic Financial Statements. No new long-term debt was incurred in the current year. Total debt outstanding represents approximately 35% of the Service District's total assets at December 31, 2003, compared to approximately 36% in the prior year.

Net Assets

The following table presents the components of the Service District's net assets at December 31, 2003 and 2002.

TABLE 4

	December 31		Dollar	Percentage
	2003	**2002**	**Change**	**Change**
Invested capital assets, net of related debt	**$ 20,396,107**	$ 2,782,510	$ 17,613,597	633%
Restricted	**17,744,211**	21,640,876	(3,896,665)	(18)%
Unrestricted	**153,337,313**	166,751,654	(13,414,341)	(8)%
Total net assets	**$ 191,477,631**	$ 191,175,040	$ 302,591	0%

Net assets increased $0.3 million during 2003, indicating an overall improvement in financial condition. Refer to Table 5 and the pages that follow Table 5 for a discussion of operations.

Statements of Revenues, Expenses, and Changes in Net Assets

The following table presents a summary of the Service District's revenues and expenses for the years ended December 31, 2003 and 2002.

TABLE 5
Condensed Combined Statements of Revenues, Expenses, and Changes in Net Assets

	Year ended December 31 2003	2002	Dollar Change	Percent Change
Operating revenue:				
Net patient service revenue	**$ 169,716,848**	$ 158,471,396	$11,245,452	7%
Other operating revenue	**7,881,748**	5,655,450	2,226,298	39%
Total operating revenue	**177,598,596**	164,126,846	13,471,750	8%
Operating expenses:				
Salaries, wages, and employee benefits	**84,547,513**	86,753,064	(2,205,551)	(3)%
Professional fees, medical and general supplies, and purchased services	**68,799,800**	64,061,088	4,738,712	7%
Other expenses	**9,357,351**	8,202,800	1,154,551	14%
Depreciation	**12,708,351**	12,344,197	364,154	3%
Interest expense, net	**4,735,878**	4,482,692	253,186	6%
Total operating expenses	**180,148,893**	175,843,841	4,305,052	2%
Loss from operations	**(2,550,297)**	(11,716,995)	9,166,698	78%
Investment income, net, and other nonoperating income and expenses	**3,882,812**	8,780,718	(4,897,906)	(56)%
Revenues in excess of (less than) expenses	**1,332,515**	(2,936,277)	4,268,792	145%
Assessments by Jefferson Parish	**(1,029,924)**	(1,029,157)	(767)	0%
Net assets – beginning of year	**191,175,040**	195,140,474	(3,965,434)	(2)%
Net assets – end of year	**$ 191,477,631**	$ 191,175,040	$ 302,591	0%

Sources of Revenue

Net Patient Service Revenue

The Service District derived approximately 96% of its total operating revenue from patient services in fiscal year 2003, which was consistent with the prior year. The Service District's revenue is 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. Patient service revenue is generated by providing services to patients who are covered by Medicare, Medicaid, or by managed care contracts, as well as by providing services to self-pay and indigent patients. Table 6 below presents the relative percentages of gross charges billed for patient services by payer for the fiscal years ended December 31, 2003 and 2002.

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 other 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. See Table 7 for a summary of allowances.

TABLE 6
Payer Mix

	Year ended December 31	
	2003	**2002**
Managed care/commercial	**33%**	34%
Medicare	**30**	27
Medicare HMO	**9**	11
Medicaid	**13**	13
Self-pay and other	**15**	15
Total patient revenues	**100%**	100%

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

TABLE 7
Allowance Summary

	Year ended December 31 2003	2002
Contractual allowances:		
Managed care and commercial accounts	**$171,544,233**	$ 97,014,772
Medicaid contractual allowances	**58,284,971**	42,648,763
Medicare contractual allowances	**133,788,286**	85,490,155
Other adjustments	**15,377,517**	40,388,778
Total contractual allowances	**378,995,007**	265,542,468
Doubtful accounts	**25,935,809**	17,902,933
	$404,930,816	$283,445,401

Other Operating Revenue

Other operating revenue includes income primarily generated by rent receipts from the Service District's professional office buildings as well as income from other miscellaneous services, such as the Child Care Center 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.

Operating and Financial Performance

Operating Revenue

This discussion refers to the summarized activity presented in the Service District's Condensed Statements of Revenues, Expenses, and Changes in Net Assets on page v for 2003 and 2002.

Overall, net patient service revenue increased by approximately $11.2 million, or 7%, for fiscal year 2003 when compared to the prior year. The increase is primarily due to increases in volume, increases in rates paid by managed care payers, and increases in the Service District's customary charges. In addition, in 2002 the Service District recorded a write-off of $5.5 million of accounts receivable due from an insolvent managed care organization.

Inpatient gross revenue grew by approximately 34.2% compared to the prior year's gross revenue. This increase primarily resulted from increases in the Service District's customary charges and increases in volume. Total inpatient admissions grew by approximately 5.0% to 16,541 admissions in 2003 while total patient days increased by 1.4% to 83,809 patient days in 2003. In addition, total average daily census increased by approximately 1.4% to 229.6. The overall case mix index was consistent with the prior year.

Outpatient gross revenue experienced an increase of 21.7% in 2003 compared to gross outpatient revenue in the prior year. In addition to the rate increases noted above, outpatient gross revenue also increased due to the following factors. Total outpatient units of service, excluding clinic operations and pharmacy outpatient units dispensed, increased by 1.3% in 2003. Total clinic visits in 2003 were down approximately 14% to 67,452 visits compared to 78,428 total visits in 2002. The 2002 total includes three clinics that were closed by December 2002 and one clinic that subsequently closed in 2003. Comparing those clinics in operation for all of 2002 and 2003 indicates that overall clinic visits increased by 6.6% to 67,452 in 2003.

Other operating revenue increased in 2003 by approximately $2.2 million, or 39%, compared to the prior year. Included in the increase were increases of approximately $0.7 million in rental income from the Service District's office space, approximately $1.0 million of membership and other revenue from the Marrero and Oakwood Fitness Centers, and approximately $0.3 million related to Alzheimer's day care services.

Operating Expenses

In early 2003, the Service District's executive management team developed and implemented a number of initiatives to reduce overall operating expenses for the remainder of 2003. Among these initiatives were reductions of salary expense by deferring its merit increase program for 2003, as well as reductions through attrition and consolidation of vacant positions. In addition, the Service District reduced other operating expenses through renegotiated vendor contracts.

The result of the initiatives discussed above was to control overall operating expenses, excluding depreciation and interest expense, by limiting the year-to-year increase to only 2.3% when compared to the prior year. Overall, the efforts described above, as well as the increase in net patient revenue, resulted in the Service District posting a 78% increase in income from operations in 2003.

Salaries, wages, and employee benefits expenses decreased approximately $2.2 million, or 3%, in 2003 when compared to the prior year. Reviewing the components separately, salaries and wages expenses increased slightly, by $258,000 or less than 1%, in the current year primarily due to the expense reduction initiatives discussed above.

Employee group health insurance costs decreased by 14% in the current year compared to 2002. The decrease is primarily due to recording charges to the plan at 30% of billed charges, which more closely approximates reimbursement rates of third-party payers, compared to recording 100% of billed charges in the prior year. The difference between the current-year billed charges and the amount charged to group health insurance expenses is recorded as a contractual allowance.

Overall, salaries and wages expenses declined as a percentage of net patient service revenue in 2003 to 41% compared to 43% in the prior year. In addition, employee benefits as a percentage of net patient service revenue also decreased to 9% in the current year compared to 11% in 2002.

Professional fees, medical and general supplies, and purchased services increased by approximately $4.7 million, or 7%, in 2003 compared to 2002. As a percentage of net patient service revenue, these costs were consistent at approximately 40.5% and 40.4% in 2003 and 2002, respectively.

Viewing the components separately, professional fees increased by approximately $2.7 million, or 35.3%, compared to the prior year. The increase is primarily due to including 12 months of anesthesia professional fees in the current year compared to 5 months in the prior year as the contract began in August 2002. The increase in anesthesia professional fees was partially offset by a decline in pediatric emergency room professional fees resulting from using Service District-based physicians effective July 2003. Prior to that time, the Service District had contracted with an external physician group.

Medical and general supplies expense increased approximately $0.6 million, or 2.0%, over the prior year primarily due to an increase in medical supply costs associated with the operating room and special procedures. Medical supply expense for the operating room increased by $1.2 million over the prior year primarily due to increases in orthopedic and neurological implant procedures. Special procedures medical supply expense increased by approximately $0.7 million primarily due to an increase in volume.

Purchased services increased approximately $1.4 million, or 5.6%, when compared to the prior year due to an increase in consulting and management costs, contract labor costs, collection services expenses and medical purchased services which were partially offset by decreases in management services and maintenance contract expenses.

Consulting and management costs increased approximately $1.0 million over the prior year primarily due to costs associated with the outside consulting firm engaged to review operating expenses for cost-saving opportunities. Contract labor costs increased by approximately $0.2 million due to nurse staffing requirements, while collection services costs also increased by approximately $0.2 million as the Service District continued its efforts to collect accounts. Medical purchased services increased by approximately $0.3 million in part due to costs associated with pediatric emergency room physician staffing, costs incurred on external lithotripsy services, as well as physician coverage costs incurred in several other departments.

The increases noted above were partially offset by a decrease of approximately $0.2 million in management services costs that resulted primarily from termination of third-party management service contracts for the Service District's Home Health and Hospice agencies. Those savings were partially offset by increased biomedical maintenance costs as the Service District added additional equipment to its outsourced maintenance management contract. Additionally, purchased services increases discussed above were partially offset by a decrease of $0.7 million in software maintenance contract costs primarily related to discontinued software and other services that are now performed by the Service District's information technology personnel.

Other expenses increased by approximately $1.2 million, or 14%, in 2003 compared to the prior year. The increase is primarily attributable to increases in other direct expenses and equipment rental expenses of approximately $1.0 million, as well as increases in utilities and telecommunication expenses of approximately $0.6 million. These increases were partially offset by a decrease in professional liability and other insurance expenses of approximately $0.8 million and a decrease in amortization expense of approximately $0.1 million.

Depreciation expense increased approximately $0.4 million, or 3%, from the prior year. The increase results from the $11.2 million of additions to property, plant, and equipment.

Interest expense, net of interest income from bond fund investments, increased by approximately $0.25 million, or 6%, in 2003 when compared to the prior year. The increase is primarily due to a decrease in the interest income received on the Series 1998 bond fund that was partially offset by a decrease in interest expense recorded on the Series 1998 bonds.

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 to demonstrate the Service District's accountability for this money it receives. If you have questions about this report or need additional financial information, please contact the Service District's Administration.

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Report of Independent Auditors

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

We have audited the accompanying combined balance sheets of Jefferson Parish Hospital Service District No. 1 as of December 31, 2003 and 2002, and the related combined statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of the Service District's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and in accordance with the standards for 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Service District at December 31, 2003 and 2002, 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.

Management's discussion and analysis on pages i through xi is not a required part of the combined basic financial statements but is supplementary information required by the Government 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 supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2004 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, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Ernst & Young LLP

April 21, 2004

Jefferson Parish Hospital Service District No. 1

Combined Balance Sheets

	December 31 2003	December 31 2002
Assets		
Current assets:		
Cash and cash equivalents	$ 2,647,713	$ 1,410,575
Patient accounts receivable, less allowance for doubtful accounts of $15,800,000 in 2003 and $18,727,000 in 2002	20,789,952	24,750,682
Government health care program receivables, net	21,615,142	19,700,445
Other receivables	1,632,859	1,644,576
Inventory	3,420,269	3,153,032
Prepaid expenses	4,532,329	3,331,414
Assets whose use is limited and that are required for current liabilities	9,157,943	8,850,443
Total current assets	63,796,207	62,841,167
Assets whose use is limited:		
By board for specific purposes, at fair value	113,941,409	131,992,317
Trustee-held assets, at fair value	17,744,211	21,640,876
Total assets whose use is limited	131,685,620	153,633,193
Less amounts required for current liabilities	(9,157,943)	(8,850,443)
Noncurrent assets whose use is limited	122,527,677	144,782,750
Property, plant, and equipment, net	132,839,875	121,663,470
Other assets:		
Unamortized financing costs	1,277,040	1,339,885
Prepaid deferred compensation	1,192,718	948,533
Other	2,828,047	2,163,140
Total other assets	5,297,805	4,451,558
Total assets	$ 324,461,564	$ 333,738,945

	December 31	
	2003	**2002**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 5,321,471**	$ 5,230,864
Accrued expenses	**8,604,105**	11,102,477
Patient deposits and credit balances	**233,928**	1,095,628
Current installments of long-term debt	**6,970,000**	6,545,000
Bond interest payable	**2,187,943**	2,305,443
Total current liabilities	**23,317,447**	26,279,412
Reserve for estimated malpractice claims	**3,000,000**	3,000,000
Reserve for deferred compensation	**1,192,718**	948,533
Long-term debt, net of original issue discount of $726,232 in 2003 and $834,040 in 2002	**105,473,768**	112,335,960
Net assets:		
Invested in capital assets, net of related debt	**20,396,107**	2,782,510
Restricted net assets	**17,744,211**	21,640,876
Unrestricted net assets	**153,337,313**	166,751,654
Total net assets	**191,477,631**	191,175,040
Total liabilities and net assets	**$ 324,461,564**	$ 333,738,945

See accompanying notes.

Jefferson Parish Hospital Service District No. 1

Combined Statements of Revenues, Expenses, and Changes in Net Assets

	Year ended December 31 2003	2002
Operating revenue:		
Net patient service revenue	**$ 169,716,848**	$ 158,471,396
Other operating revenue	**7,881,748**	5,655,450
Total operating revenue	**177,598,596**	164,126,846
Operating expenses:		
Salaries and wages	**68,930,172**	68,671,770
Employee benefits	**15,617,341**	18,081,294
Professional fees	**10,330,005**	7,636,246
Medical and general supplies	**31,170,038**	30,565,791
Purchased services	**27,299,757**	25,859,051
Other expenses	**9,357,351**	8,202,800
Depreciation	**12,708,351**	12,344,197
Interest expense, net of interest income from trustee-held assets of $157,000 in 2003 and $715,000 in 2002	**4,735,878**	4,482,692
Total operating expenses	**180,148,893**	175,843,841
Loss from operations	**(2,550,297)**	(11,716,995)
Investment income (loss) and other nonoperating income (expenses):		
Investment income	**5,769,175**	5,933,076
Unrealized (loss) gain on investments	**(3,837,563)**	2,324,546
Net realized gains on investment sales	**1,951,200**	523,096
Total investment income and other nonoperating income (expenses)	**3,882,812**	8,780,718
Revenues in excess of (less than) expenses	**1,332,515**	(2,936,277)
Assessments by Jefferson Parish	**(1,029,924)**	(1,029,157)
Net assets, beginning of year	**191,175,040**	195,140,474
Net assets, end of year	**$ 191,477,631**	$ 191,175,040

See accompanying notes.

Jefferson Parish Hospital Service District No. 1

Combined Statements of Cash Flows

	Year ended December 31 2003	2002
Operating activities		
Revenue collected	$ 178,782,929	$ 157,844,211
Cash payments to employees and for employee-related costs	(85,152,400)	(84,737,954)
Cash payments for operating expenses	(82,105,972)	(78,982,303)
Net cash provided by (used in) operating activities	11,524,557	(5,876,046)
Investing activities		
Purchases of investment securities	(8,797,749)	(8,876,559)
Proceeds from sales and maturities of investments	30,745,322	37,349,870
Investment income and other	3,966,930	8,780,718
Net cash provided by investing activities	25,914,503	37,254,029
Capital and related financing activities		
Interest payments, net	(4,745,570)	(4,532,788)
Proceeds from sale of property, plant, and equipment	658,260	–
Capital expenditures	(24,539,688)	(27,029,760)
Principal payments on borrowings	(6,545,000)	(3,715,000)
Net cash used in capital and related financing activities	(35,171,998)	(35,277,548)
Noncapital financing activity		
Assessments by Jefferson Parish	(1,029,924)	(1,029,157)
Cash used in noncapital financing activity	(1,029,924)	(1,029,157)
Net increase (decrease) in cash and cash equivalents	1,237,138	(4,928,722)
Cash and cash equivalents, beginning of year	1,410,575	6,339,297
Cash and cash equivalents, end of year	$ 2,647,713	$ 1,410,575
Reconciliation of loss from operations to net cash provided by (used in) operating activities		
Loss from operations	$ (2,550,298)	$ (11,716,995)
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:		
Depreciation	12,708,351	12,344,197
Amortization of bond financing costs	62,845	288,988
Interest expense, net	4,735,878	4,482,692
(Gain) loss on sale of property, plant, and equipment	(3,328)	38,071
Bad debt expense	25,935,809	17,902,933
Equity in earnings of other investment	(95,141)	(119,301)
Changes in operating assets and liabilities:		
Accounts receivable, net	(24,751,476)	(24,090,347)
Inventory and prepaid expenses	(1,468,151)	(2,563,289)
Other receivables	(642,167)	2,165,837
Accounts payable	90,607	(6,750,079)
Accrued expenses and other liabilities	(2,498,372)	2,141,247
Net cash provided by (used in) operating activities	$ 11,524,557	$ (5,876,046)

See accompanying notes.

1. Organization and Significant Accounting Policies

Organization

Jefferson Parish Hospital Service District No. 1 (the "Service District") 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 a health and fitness center. The primary purpose of the Service Corporation is to support the activities of the Medical Center. It is also the leasing agent for various medical office buildings owned by the Medical Center. West Jefferson Medical Center and West Jefferson Service Corporation operate under the jurisdiction of the Parish Council of Jefferson Parish, State of Louisiana (the "Parish") as Jefferson Parish Hospital Service District No. 1 (the "Service District") and are exempt from federal and state income taxes.

Basis of Accounting

The Service District 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 Board pronouncements issued after November 30, 1989. As a governmental entity, the Service District also follows certain accounting and disclosure requirements promulgated by the GASB.

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, 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

1. Organization and Significant Accounting Policies (continued)

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, trustee-held assets, 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 amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payers.

Investments

Investments are carried at fair value in the balance sheet 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.

Assets Limited as to Use

Assets limited as to use 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 costs for drug inventory and operating room special order supplies are determined using the first-in, first-out method. The cost for supplies is determined using the weighted-average method.

1. Organization and Significant Accounting Policies (continued)

Property, Plant, and Equipment

Property, plant, and equipment are stated at 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

Unamortized Financing Costs

Deferred financing costs are amortized over the period the obligation is expected to be outstanding.

Other Assets

Other assets consist primarily of the Service District's 33% ownership interest in a laundry cooperative, which is 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, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of bonds attributable to the acquisition, construction, or improvement of those assets.

1. Organization and Significant Accounting Policies (continued)

- 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

The Service District provides medical services to government program beneficiaries and has agreements with other third-party payers that provide for payments 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 payers, and others for services rendered. The Service District's provision for bad debts is classified as a reduction to net patient service revenue. The percentage of total net patient service revenue derived from services furnished to Medicare and Medicaid program beneficiaries, combined, was approximately 26% in 2003 and 29% in 2002. During the years ended December 31, 2003 and 2002, approximately 43% and 41%, respectively, of the Service District's gross patient revenue was derived from Medicare and Medicaid program beneficiaries.

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.

Retroactive settlements are provided for in some of the governmental payment 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

1. Organization and Significant Accounting Policies (continued)

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 an increase to net patient service revenue of $1,523,000 in 2003 and a decrease of $5,217,000 in 2002. Estimated settlements through December 31, 1998 for the Medicaid program, and December 31, 1999 for the Medicare program, 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, 2003, the Service District recorded a receivable of $230,000 for the current year cost report.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Reclassifications

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

2. Cash and Investments

The composition of assets whose use is limited is set forth below:

	December 31, 2003		
	Cash Equivalents	U.S. Government Securities	Total
Board-designated	$ 113,500	$ 113,827,909	$ 113,941,409
1993 Bond Issue:			
Debt Fund	–	4,259,840	4,259,840
Capital Fund	4,779,202	–	4,779,202
Total 1993 Bond Issue	4,779,202	4,259,840	9,039,042
1998 Bond Issue:			
Improvement Fund	–	3,210,148	3,210,148
Reserve Fund	–	3,149,791	3,149,791
Interest Fund	2,345,230	–	2,345,230
Total 1998 Bond Issue	2,345,230	6,359,939	8,705,169
Total carrying value (at fair value)	$ 7,237,932	$ 124,447,688	$ 131,685,620

	December 31, 2002		
	Cash Equivalents	U.S. Government Securities	Total
Board-designated	$ 1,639,386	$ 130,352,931	$ 131,992,317
1993 Bond Issue:			
Debt Fund	2,819,860	–	2,819,860
Capital Fund	4,788,029	–	4,788,029
Total 1993 Bond Issue	7,607,889	–	7,607,889
1998 Bond Issue:			
Improvement Fund	74,407	7,223,843	7,298,250
Reserve Fund	14,757	3,107,958	3,122,715
Interest Fund	3,612,022	–	3,612,022
Total 1998 Bond Issue	3,701,186	10,331,801	14,032,987
Total carrying value (at fair value)	$ 12,948,461	$ 140,684,732	$ 153,633,193

2. Cash and Investments (continued)

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, 2003 and 2002, the Service District invested primarily in securities issued by the U.S. Treasury and other federal agencies. Louisiana state statutes also require that all of the deposits of the Service District 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, 2003 and 2002 were fully covered by insurance or collateral held by financial institutions in the Service District's name.

The Service District's cash and investments are categorized below to give an indication of the level of risk assumed at December 31, 2003. Category (a) includes investments that are insured or registered in the Service District's name, or for which the securities are held by the Service District or its agent in the Service District's name. Category (b) includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Service District's name. Category (c) includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Service District's name. Balances at December 31 were as follows:

	December 31, 2003 Credit Risk Category		
	(a)	(b)	(c)
Securities type:			
U.S. government and federal agencies' securities	$ –	$ 113,941,409	$ –
Money market funds and other cash equivalents	–	17,744,211	–
Total investments	$ –	$ 131,685,620	$ –

	December 31, 2002 Credit Risk Category		
	(a)	(b)	(c)
Securities type:			
U.S. government and federal agencies' securities	$ –	$ 131,992,317	$ –
Money market funds and other cash equivalents	–	21,640,876	–
Total investments	$ –	$ 153,633,193	$ –

3. Property, Plant, and Equipment

The following table summarizes the changes in net property, plant, and equipment for the year.

	Beginning Balance	Additions	Reclassification/ Retirements	Ending Balance
Land and land improvements	$ 13,939,873	$ 1,213,540	$ (105,576)	$ 15,047,837
Building and fixed equipment	121,637,369	20,483,789	(915,595)	141,205,563
Equipment	126,526,167	13,741,950	(29,421)	140,238,696
Construction in progress	19,008,111	11,040,704	(21,940,295)	8,108,520
	281,111,520	46,479,983	(22,990,887)	304,600,616
Less accumulated depreciation	(159,448,050)	(12,708,351)	395,660	(171,760,741)
Property, plant, and equipment, net	$121,663,470	$ 33,771,632	$ (22,595,227)	$ 132,839,875

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 that are on a longer-term basis. Refer to Note 10 for amounts relating to these leases. Rental expense for leased equipment amounted to approximately $1,093,600 in 2003 and $728,500 in 2002.

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 $11 million with $500,000 self-retention.

4. Risk Management (continued)

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 $3,000,000 at December 31, 2003 and 2002, 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, 2003. 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.

The Service District is self-insured for workers' compensation up to $250,000 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
2003	$5,663,466	$10,971,095	$12,295,443	$4,339,118
2002	4,172,535	11,728,588	10,237,657	5,663,466

5. Long-Term Debt

Long-term debt consisted of the following:

	December 31 2003	2002
Louisiana Public Facilities Authority CP Program Hospital Equipment Financing and Refunding Revenue Bonds (Series 1985-A); variable interest rate (ranging from 1.70% - 2.93% in 2003 and 1.70% - 3.40% in 2002); due in varying principal installments through 2005	**$ 5,145,000**	$ 7,470,000
Hospital Revenue Bonds (Series 1993); 3.6% - 5.4%; due in installments through 2019	**44,315,000**	45,935,000
Hospital Revenue Bonds (Series 1998A); 4% - 5.25%; due in installments, through 2021	**38,710,000**	41,310,000
Hospital Revenue Bonds (Series 1998B); variable interest rate (ranging from 0.72% - 1.55% in 2003 and 1.05% - 1.90% in 2002); due in installments, beginning in 2022 through 2028	**25,000,000**	25,000,000
Total	**113,170,000**	119,715,000
Less unamortized original issue discount	**(726,232)**	(834,040)
Less current maturities	**(6,970,000)**	(6,545,000)
Long-term debt, less current maturities	**$ 105,473,768**	$ 112,335,960
Total market value of long-term debt	**$ 117,013,165**	$ 124,635,859

The debt service requirements at December 31, 2003 were as follows:

	Principal	Interest
2004	$ 6,970,000	$ 5,469,556
2005	7,370,000	5,261,883
2006	4,890,000	4,971,445
2007	5,305,000	4,730,305
2008	5,580,000	4,454,225
2009 – 2013	24,010,000	17,986,128
2014 – 2018	22,715,000	12,195,129
2019 – 2023	17,630,000	6,771,310
2024 – 2028	18,700,000	2,710,820
Total long-term debt	$ 113,170,000	$ 64,550,801

5. Long-Term Debt (continued)

At December 31, 2002, the Service District's debt service ratio was not in compliance with the Service District's bond covenants. Through the improvement in operating performance in 2003, the Service District was in compliance with all covenants of its outstanding bond issues at December 31, 2003.

Defeased Bond Issues

Series 1979 Bonds

The Series 1979 bonds were advance refunded in 1985. A portion of the proceeds from a subsequent bond issuance were 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 $16,310,000 at December 31, 2003 and $25,915,000 at December 31, 2002.

Outstanding Bond Issues

LPFA – 1991 Loan

During 1991, the Service District borrowed $20,000,000 through the Louisiana Public Facilities Authority CP Program Hospital Equipment Financing and Refunding Bonds (Series 1985-A) Program.

Series 1993 Bonds

In January 1994, the Service District completed the issuance of the Hospital Revenue Bonds (Series 1993) to provide funds to (1) advance refund $13,340,000 of the Series 1985 Hospital Revenue Bonds, (2) advance refund $9,275,000 of the Series 1988 Bonds, (3) finance acquisition, construction improvements, renovations, and expansions of the Service District, and (4) finance the costs incurred in connection with the issuance of the Bonds. The 1993 Bonds have fixed rates of interest at an average yield of 5.67% and are due in varying installments through 2019. Pursuant to Section 148 of the Internal Revenue Code ("IRC"), arbitrage rebate calculations indicate no cumulative arbitrage

5. Long-Term Debt (continued)

liability on the Series 1993 bonds as of December 31, 1999. Arbitrage rebate calculations were performed as of December 31, 1999 (these calculations are performed at a minimum of every five years). Based on these calculations and current year investment performance, management is of the opinion that the arbitrage liability at December 31, 2003, if any, would be immaterial.

Series 1998 Bonds

In September 1998, the Service District completed the issuance of the Hospital Revenue Bonds (Series 1998) consisting of $41,310,000 Fixed Rate Hospital Revenue bonds, Series 1998A and $25,000,000 Variable Rate Hospital Revenue Bonds, Series 1998B to provide funds to (1) reimburse the Service District for certain capital expenditures previously incurred by the Service District, (2) finance the acquisitions, construction improvements, renovations, and expansions of the Service District and furniture, fixtures, and equipment, (3) finance the costs associated with the acquisition and construction of an outpatient surgical and diagnostic facility, and (4) finance the cost of acquisition and construction of a family medicine facility. The Series 1998A Bonds have fixed rates of interest at an average yield of 5.25% and are due in varying installments through 2021. The Series 1998B Bonds have a variable rate of interest and are due in varying installments through 2028. Pursuant to Section 148 of the IRC, arbitrage rebate calculations indicated no cumulative arbitrage liabilities on the Series 1998 Bonds as of December 31, 1999. Arbitrage rebate calculations were performed as of December 31, 1999 (these calculations are performed at a minimum of every five years). Based on these calculations and current year investment performance, management is of the opinion that the arbitrage liability at December 31, 2003, if any, would be immaterial.

During the second quarter of 2004, it is anticipated that the Service District will issue approximately $115 million of Series 2004 bonds to refund the outstanding Series 1993 debt and to provide approximately $72 million for the Service District's capital expansion and equipment. The terms of the Series 2004 bonds are undetermined and subject to approval of the Jefferson Parish Council and the State of Louisiana Bond Commission.

6. Community Benefits (Unaudited)

Services provided to the indigent and benefits provided to the broader community by the Service District are summarized below:

	Year ended December 31	
	2003	**2002**
Benefits for the indigent (unpaid costs):		
Traditional charity care	**$ 2,988,000**	$ 1,410,000
Benefits for the broader community:		
Unpaid costs of Medicare and Medicaid programs	**40,412,000**	31,174,000
Other community benefits	**1,127,000**	1,029,000
Total quantifiable benefits for the broader community	**41,539,000**	32,203,000
Total quantifiable community benefit expense	**$44,527,000**	$33,613,000

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 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

7. Governmental Regulations (continued)

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 as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, 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 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.

The Health Insurance Portability and Accountability Act ("HIPAA") was enacted August 21, 1996, to assure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Organizations are required to be in compliance with certain HIPAA provisions beginning as early as April 2003. Provisions not yet finalized are required to be implemented two years after the effective date of the regulation. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations.

8. Employee Benefits

Retirement Plan Description

The Service District contributes to the Retirement Plan for Employees of West Jefferson Medical Center (the "Plan") that covers substantially all employees who meet certain length of service requirements. 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 Plan is a single-employer, noncontributory, defined public employee retirement system ("PERS"). The Plan is funded through employer contributions and investment earnings. The Service District's total payroll for all employees and the Service District's total covered payroll for the year ended December 31, 2003 amounted to approximately $68,726,000 and $48,455,000, respectively, and $68,420,000 and $48,048,000, respectively, for the year ended December 31, 2002. Covered payroll refers to all compensation paid by the Service District to active employees covered by the plan on which contributions to the plan are based.

The Service District's plan provides retirement benefits as well as death and disability benefits. Effective July 1, 2001, all employees become fully vested after 5 years of credited service. Prior to July 1, 2001, all benefits were fully vested after 10 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 of (1) 1.2% of final average monthly compensation and (2) 0.65% of final average monthly compensation in excess of "covered compensation," as defined in the plan document. The Plan issues a publicly available financial report that includes financial statements and required supplementary information.

Employer contributions to the Plan are invested primarily in equity and fixed income funding and short-term money market funds.

Funding Status

The amount shown below as pension benefit obligation, determined as part of an actuarial valuation as of January 1, 2003, 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

8. Employee Benefits (continued)

assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons with other plans.

Annual pension cost and net pension obligation:	
Annual required contribution	$ 1,980,141
Adjustment to annual required contribution	–
Annual pension cost	1,980,141
Contribution made	(1,577,881)
Increase in net pension obligation	402,260
Net pension obligation, beginning of year	1,577,881
Net pension obligation, end of year	$ 1,980,141

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.

Contributions

The funding policy of the Plan provides for periodic employer contributions at actuarially determined rates that are sufficient to fund the normal costs and amortization of past service costs, which are amortized over 30 years for purposes of determining contribution requirements using 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 unfunded actuarial accrued liability as of December 31, 2003 was $11,137,929. The actuarially determined contribution requirement accrued in 2003 (to be paid in 2004) was $1,980,141.

8. Employee Benefits (continued)

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.

Fiscal Year Ended	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net Pension Obligation
December 31, 2003	$ 1,980,141	100%	$ 1,980,141
December 31, 2002	1,577,881	100%	1,577,881

The 2003 audited financial statements of the Plan include certain required supplementary information related to net actuarial value of assets and accrued liabilities, funded ration, and annual covered payroll.

Executive Benefits

The Service District provides a supplemental executive retirement plan ("SERP") as well as a contributory flexible benefit plan to certain key employees. Service District contributions to the plans were approximately $240,000 in 2003 and $275,000 in 2002. Net assets and liabilities associated with the plans were approximately $1,193,000 and $949,000 at December 31, 2003 and 2002, respectively, and are included in noncurrent assets and noncurrent liabilities in the accompanying combined financial statements.

9. Concentrations of Credit Risk

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

	December 31	
	2003	**2002**
Medicare	**28%**	26%
Medicaid	**11**	17
Managed care	**31**	31
Other	**20**	19
Self-pay	**10**	7
	100%	100%

10. Operating Leases and Other Commitments

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

2004	$ 844,000
2005	844,000
2006	687,617
2007	656,340
2008	656,340
Thereafter	1,455,055
	$ 5,143,352

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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements in Accordance With *Government Auditing Standards*

The Board of Directors
West Jefferson Medical Center

We have audited the financial statements of West Jefferson Medical Center as of and for the year ended December 31, 2003, and have issued our report thereon dated April 21, 2004. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether West Jefferson Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered West Jefferson Medical Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, and the Office of Legislative Auditor, State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

April 21, 2004