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JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

Comprehensive Annual Report
As of December 31, 2001

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

COMPREHENSIVE ANNUAL REPORT

AS OF DECEMBER 31, 2001

INDEX

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JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

Combined Financial Statements
As of December 31, 2001
Together With Auditors' Report

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Parish Council of Jefferson Parish:

We have audited the accompanying combined balance sheets of Jefferson Parish Hospital Service District No. 1 (the Service District - a component unit of Jefferson Parish, Louisiana) as of December 31, 2001 and 2000, and the related combined statements of revenues and expenses and fund balance 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 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 audits 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 financial statements referred to above present fairly, in all material respects, the financial position of the Service District as of December 31, 2001 and 2000, 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 a report on our consideration of the Service District's compliance and internal control over financial reporting dated March 8, 2002.

Arthur Andersen LLP

New Orleans, Louisiana
March 8, 2002

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

COMBINED BALANCE SHEETS

DECEMBER 31, 2001 and 2000

ASSETS	2001	2000
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,339,297	$ 3,571,456
Patient accounts receivable, less allowance for doubtful accounts of $21,583,000 in 2001 and $16,465,000 in 2000	31,220,301	26,470,532
Government health care program receivables	7,758,434	10,550,285
Other receivables	1,659,400	467,132
Inventory of drugs and supplies	3,210,290	2,912,263
Prepaid expenses	4,751,574	3,949,623
Assets whose use is limited and that are required for current liabilities	6,070,539	5,917,100
Total current assets	61,009,835	53,838,391
ASSETS WHOSE USE IS LIMITED (Note 2):		
By board for specific purposes, at fair value	147,641,534	127,910,286
Trustee-held assets, at fair value	34,464,970	125,396,525
Total assets whose use is limited	182,106,504	253,306,811
Less amounts required for current liabilities	(6,070,539)	(5,917,100)
Noncurrent assets whose use is limited	176,035,965	247,389,711
PROPERTY, PLANT AND EQUIPMENT, net (Note 3)	106,977,907	92,260,074
OTHER ASSETS:		
Unamortized financing costs	2,462,913	2,801,567
Other	1,235,970	1,384,700
Total other assets	3,698,883	4,186,267
Total assets	$347,722,590	$397,674,443

The accompanying notes are an integral part of these combined financial statements.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

COMBINED BALANCE SHEETS

DECEMBER 31, 2001 AND 2000

LIABILITIES AND FUND BALANCE	2001	2000
CURRENT LIABILITIES:		
Accounts payable	$ 11,980,943	$ 11,550,255
Accrued expenses	10,409,763	9,319,103
Patient deposits and credit balances	1,905,871	4,020,416
Current installments of long-term debt (Note 4)	3,715,000	3,380,000
Bond interest payable	2,355,539	2,537,100
Total current liabilities	30,367,116	30,806,874
RESERVE FOR ESTIMATED MALPRACTICE CLAIMS (Note 5)	2,500,000	2,500,000
LONG-TERM DEBT (Note 4)	119,715,000	171,430,000
CONTINGENCIES (Notes 5 and 6)	-	-
FUND BALANCE	195,140,474	192,937,569
Total liabilities and fund balance	$347,722,590	$397,674,443

The accompanying notes are an integral part of these combined financial statements.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

COMBINED STATEMENTS OF REVENUES AND EXPENSES AND FUND BALANCE

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
OPERATING REVENUES:		
Net patient service revenue	$165,542,679	$145,670,007
Other operating revenues	6,126,125	5,674,418
Total operating revenues	171,668,804	151,344,425
OPERATING EXPENSES:		
Personnel	75,135,531	66,091,942
Professional fees	5,201,916	5,805,323
Medical and general supplies	27,903,726	25,708,347
Purchased services	25,141,456	22,970,228
Other expense	9,234,571	7,798,079
Bad debt expense	20,304,546	14,928,006
Depreciation	11,225,131	9,909,893
Interest expense, net of interest income from bond fund investments of $3,976,000 in 2001 and $7,434,000 in 2000	3,105,494	1,195,933
Total operating expenses	177,252,371	154,407,751
LOSS FROM OPERATIONS	(5,583,567)	(3,063,326)
INVESTMENT INCOME (LOSS) AND OTHER NON-OPERATING EXPENSES:		
Investment income	9,732,300	8,773,285
Unrealized (loss) gain on investments	(917,293)	3,581,698
Loss on disposal of assets	-	(183,362)
Total investment income and other non-operating expenses	8,815,007	12,171,621
REVENUES OVER EXPENSES	3,231,440	9,103,295
FUND BALANCE, BEGINNING OF YEAR	192,937,569	185,125,444
ASSESSMENTS BY JEFFERSON PARISH (Note 1)	(1,028,535)	(1,296,170)
FUND BALANCE, END OF YEAR	$195,140,474	$192,937,569

The accompanying notes are an integral part of these combined financial statements.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

COMBINED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss from operations	$ (5,583,567)	$ (3,003,326)
Adjustments to reconcile loss from operations to net cash provided by operating activities-		
Depreciation	11,225,131	9,909,893
Amortization of bond financing costs	338,654	425,305
Interest expense, net	3,105,494	1,195,933
Loss on disposal of assets	–	273,287
Changes in operating assets and liabilities-		
Accounts receivable, net	(1,957,918)	(4,651,772)
Inventory and prepaid expenses	(1,099,978)	351,557
Other assets and receivables, net of non-cash items	(1,043,538)	(34,159)
Accounts payable	430,688	3,165,001
Accrued expenses, credit balances and malpractice claims	*(1,023,885)*	*(786,036)*
Net cash provided by operating activities	4,391,081	6,785,683
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities	(1,283,878,673)	(1,007,706,903)
Proceeds from sales and maturities of investments	1,359,083,628	1,023,270,089
Investment income and other	8,815,007	12,354,983
Net cash provided by investing activities	84,019,962	27,918,169
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest payments	(7,262,783)	(8,817,545)
Capital expenditures	(25,971,884)	(20,149,367)
Principal payments on borrowings	(51,380,000)	(3,190,000)
Net cash used in capital and related financing activities	(84,614,667)	(32,156,912)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers to other parish funds	(1,028,535)	(1,296,170)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,767,841	1,250,770
CASH AND CASH EQUIVALENTS, beginning of year	3,571,456	2,320,686
CASH AND CASH EQUIVALENTS, end of year	$ 6,339,297	$ 3,571,456

The accompanying notes are an integral part of these combined financial statements.

JEFFERSON PARISH HOSPITAL SERVICE DISTRICT NO. 1

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

1. SUMMARY OF
   SIGNIFICANT ACCOUNTING POLICIES:

Organization and Principles of Combination

West Jefferson Medical Center (the Medical Center) and West Jefferson Service Corporation (the Service Corporation) operate under the jurisdiction of the Parish Council of Jefferson Parish, Louisiana (the Parish) as Jefferson Parish Hospital Service District No. 1 (the Service District) and are exempt from Federal and state income taxes. The Service District reports in accordance with the American Institute of Certified Public Accountants' "Audits of Providers of Health Care Services." As a governmental entity, the Service District also provides certain disclosures required by the Governmental Accounting Standards Board.

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 provides management consulting services to its subsidiary, Omega Claims, Inc. (a claims administration service) as well as various unrelated healthcare providers and is also the leasing agent for various medical office buildings owned by the Medical Center.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates.

The operations of all entities are included in the accompanying combined financial statements. All significant intercompany transactions have been eliminated in combination. Significant accounting policies followed by the Service District in preparing and presenting its combined financial statements are summarized below.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payers.

Investments

The Service District reports in accordance with Governmental Accounting Standards Board Statement No. 31 (GASB 31) "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" and, accordingly, 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 and expenses.

Inventory

Inventory, which consists primarily of drugs and supplies, is stated at the lower of cost (first-in, first-out) or market.

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

Costs of Borrowing

Deferred financing costs are amortized over the period the obligation is expected to be outstanding using the effective interest method.

Other Assets

Other assets consist primarily of the Medical Center's 33 percent interest in a shared laundry co-operative, which is carried under the equity method of accounting.

Net Patient Service Revenue

The Service District has agreements with third-party payers that provide for payments to the Service District at amounts different from its established rates. Net patient service revenue is reported at the estimated net amounts realizable from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Government health care program receivables include settlements for 1997 and subsequent years which are subject to audit and retroactive adjustment by the intermediary and the Department of Health and Human Services. Payment arrangements with major third-party payers are summarized below:

- Government Programs - Services rendered to most Medicare and Medicaid program beneficiaries are paid at prospectively determined rates based on fee schedules which may vary according to a patient classification system based on clinical, diagnostic and other factors. Certain outpatient services and defined capital costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology under which the Service District is paid at a tentative rate with final settlement determined after submission of annual cost reports by the Service District and audits thereof by the fiscal intermediary. Effective August 1, 2000, the Service District is reimbursed for outpatient services under the ambulatory payment classification (APC) based on prospectively determined rates.

- Commercial Insurance - The Service District has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Service District under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates and capitated per member per month rates (in 2000).

- Concentration of Revenue - The Service District derives a significant amount (approximately 38 percent in 2001 and 37 percent in 2000) of its net patient service revenue from patients covered by the Medicare and Medicaid programs and by Medicare health maintenance organization insurance plans. 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. Further changes could have a material adverse effect on the financial results of the Service District.

Community Benefits

Services provided to the indigent and benefits provided to the broader community by the Medical Center for the years ended December 31, 2001 and 2000 are summarized below:

	2001	2000
Benefits for the Indigent (unpaid costs)-		
Traditional charity care	$ 2,490,000	$ 2,648,000
Benefits for the Broader Community-		
Unpaid costs of Medicare programs	10,802,000	6,040,000
Other community benefits	1,843,000	1,676,000
Total quantifiable benefits for the broader community	12,645,000	7,716,000
Total quantifiable community benefit expense	$15,135,000	$10,364,000

Benefits for the indigent include services provided to persons who cannot afford healthcare because of inadequate resources or who are uninsured. This 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 beneficiaries in excess of government payments. These benefits also include services provided to other needy populations that may not qualify as indigent but that need special services and support. Examples include the cost of health promotion and education, an assistance program for the elderly, health clinics and screenings, ground ambulance and air ambulance services, and special assessments by the Parish to fund healthcare for the Parish correctional center, all of which, in management's opinion, benefit the broader community.

Community benefit expense approximated 9 percent and 7 percent of total Service District operating expenses in 2001 and 2000, respectively.

New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards Statement No. 141, Business Combinations (SFAS 141) and Financial Accounting Standards Statement No. 142, Goodwill and Other Intangible Assets (SFAS 142). SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. The purchase method of accounting is required to be used for all business combinations initiated after June 30, 2001. SFAS 141 also requires separate recognition of intangible assets that meet certain criteria.

Under SFAS 142, goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed for impairment annually, or more frequently if circumstances indicate potential impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. For goodwill and indefinite-lived intangible assets acquired prior to July 1, 2001, goodwill will continue to be amortized through the remainder of 2001 at which time amortization will cease and a transitional goodwill impairment test will be performed. Any impairment charges resulting from the initial application of the new rules will be classified as a cumulative change in accounting principle. The Service District does not have goodwill recorded at December 31, 2001, therefore adoption of this statement will have no effect on the financial statements.

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143), which requires recording the fair value of a liability for an asset retirement obligation in the period incurred. SFAS 143 is effective for fiscal years beginning after June 15, 2002, with earlier application permitted. Upon adoption of SFAS 143, the Medical Center would be required to use a cumulative effect approach to recognize transition amounts for any existing retirement obligation liabilities, asset retirement costs and accumulated depreciation. The Service District does not have any known asset retirement obligations, therefore adoption of this statement will have no effect on the financial statements.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". SFAS 144 also supersedes certain aspects of APB 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", with regard to reporting the effects of a disposal of a segment of a business and will require expected future operating losses from discontinued operations to be reported in discontinued operations in the period incurred rather than as of the measurement date as presently required by APB 30. Additionally, certain dispositions may now qualify for discontinued operations treatment. The provisions of SFAS 144 are required to be applied for fiscal years beginning after December 15, 2001. The adoption of this statement is not expected to have any effect on the Service District's financial statements.

GASB issued GASB Statement No. 34 (GASB 34), "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus," and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" which establish financial reporting standards for state and local governments. These statements establish that the financial statements should consist of management's discussion and analysis (MD&A) to provide an analytical overview of the entity's financial activities, basic financial statements, and required supplementary data (RSI) as required by other GASB statements. These statements are required to be adopted January 1, 2002 for the Service District.

2. CASH AND INVESTMENTS:

Assets whose use is limited that are required for obligations classified as current liabilities are reported as current assets. The total composition of assets whose use is limited at December 31, 2001 and 2000 is set forth below:

	2001 Carrying Value			
	Cash Equivalents	U. S. Government Securities	Total	2000 Total
Board designated	$ 132,827	$155,144,639	$155,277,466	$138,931,925
1986 Bond Issue	–	–	–	961
1988 Bond Issue	–	–	–	53,639,641
1993 Bond Issue	7,626,752	–	7,626,752	8,089,604
1998 Bond Issue	3,931,377	15,270,909	19,202,286	39,096,048
Debt Service Reserve	–	–	–	13,548,632
Total Carrying Value (at fair value)	$ 11,690,956	$170,415,548	$182,106,504	$253,306,811

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, 2001 and 2000, 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 percent of the deposits not covered by insurance. The bank balances of deposits at December 31, 2001 and 2000 were entirely covered by insurance or collateral held by financial institutions in the Service District's name.

The Service District's investments are categorized below to give an indication of the level of risk assumed at year end. Category (a) is intended to include investments that are insured or registered 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, 2001 are as follows:

	Credit Risk Category		
Securities Type	(a)	(b)	(c)
U. S. Government and Federal Agencies' Securities	$ –	$170,415,548	$ –
Money market funds and other cash equivalents	100,000	11,590,956	–
Total investments	$100,000	$182,006,504	$ –

3. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment at December 31, 2001 and 2000 consists of:

	2001	2000
Land and land improvements	$ 11,171,360	$ 7,958,571
Buildings	65,774,226	62,556,280
Fixed equipment	40,215,367	39,084,015
Movable and other equipment	126,870,829	105,457,284
Construction in progress	10,071,152	13,104,078
Total	254,102,934	228,160,228
Less- accumulated depreciation	(147,125,027)	(135,900,154)
Property, plant and equipment, net	$ 106,977,907	$ 92,260,074

The Service District leases certain major movable and other equipment under operating leases with terms predominantly on a month-to-month basis. Rental expenses for leased equipment amounted to approximately $1,090,000 for 2001 and $1,089,000 for 2000. During 1996, the Medical Center entered into an agreement whereby a third party manages the Information Systems function. This arrangement was terminated during 2001. The Service District also entered into an agreement with a third party in 1999 to manage housekeeping and dietary functions. Future commitments under this agreement total $2,996,000 at December 31, 2001.

4. LONG-TERM DEBT:

Long-term debt as of December 31, 2001 and 2000, consists of:

	2001	2000
Customized Purchase Revenue and Refunding Bonds (Series 1986); variable interest rates (ranging from 1.15% to 5.02% in 2001 and 2000); redeemed in December 2001	$ –	$ 48,000,000
Louisiana Public Facilities Authority CP Program Hospital Equipment Financing and Refunding Revenue Bonds (Series 1985-A); variable interest rate (ranging from 2.35% to 5.72% in 2001 and 2000); due in varying principal installments through 2005	9,640,000	11,670,000
Hospital Revenue Bonds (Series 1993); 4.70% - 5.40%; due in installments to 2019	47,480,000	48,830,000
Hospital Revenue Bonds, (Series 1998A); 4.00% - 5.25% due in installments beginning in 2003 to 2021	41,310,000	41,310,000
Hospital Revenue Bonds (Series 1998B); variable interest rate (ranging from 1.15% - 4.85% in 2001 and 3.00% - 5.80% in 2000) due in installments beginning in 2022 to 2028	25,000,000	25,000,000
Total	123,430,000	174,810,000
Less: Current maturities	(3,715,000)	(3,380,000)
Long-term debt, less current maturities	$119,715,000	$171,430,000
Total market value of long-term debt	$124,998,000	$177,390,256

Scheduled sinking fund payments on the Service District's long-term debt are as follows:

2002	3,715,000
2003	6,545,000
2004	6,970,000
2005	7,370,000
2006	4,890,000
Thereafter	93,940,000
Total long-term debt	$123,430,000

Series 1979 Bonds

The Series 1979 bonds were advance refunded with proceeds in the amount of $27,580,000 from the Series 1985 Hospital Revenue Bonds. The proceeds 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 $28,415,000 at December 31, 2001 and 2000.

Series 1986 Bonds

In 1986, the Medical Center issued $48,000,000 of Hospital Revenue and Refunding Bonds (Series 1986) to be repayable from the revenues of the Medical Center. Additionally, the trustee of the bond issue is entitled to draw up to an amount sufficient to pay the outstanding principal of and up to 58 days of accrued interest on the bonds under a transferable irrevocable letter of credit. Proceeds of the Series 1986 Bonds were used to provide funding for certain construction and equipment acquisitions at the Medical Center and advance refund certain debt issues. Loan proceeds of $48,000,000 from a Louisiana Public Facilities Authority Loan were placed in escrow to provide for the future advance refunding of the Series 1986 bonds and to fund the debt servicing requirements of the related liability prior to the refunding. The Series 1986 Bonds were redeemed in December 2001.

LPFA – 1988 Loan (Series 1988 Bonds)

During 1988, the Medical Center entered into a loan agreement with the Louisiana Public Facilities Authority to obtain financing of $59,500,000 to refund the Series 1986 bonds and finance the cost of providing improvements and equipment for the Medical Center. Loan proceeds of $48,000,000 were placed in escrow to provide for the future advance refunding of the Series 1986 bonds and to fund the debt servicing requirements of the related liability prior to the refunding. Amounts in the escrow fund were used to redeem the Series 1986 bonds during 2001. Prior to redemption of the Series 1986 bonds, the interest on borrowed funds deposited in the escrow fund was payable solely from investments and earnings of the escrow fund. The Series 1988 Bonds were defeased in July 1998 and matured in December 1998.

LPFA – 1991 Loan

During 1991, the Medical Center 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 Medical Center completed the issuance of $55,265,000 of 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 Medical Center 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 percent 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 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 every five years). Based on the prior year calculations and current year investment performance, management is of the opinion that the arbitrage liability at December 31, 2001, if any, would be immaterial.

Series 1998 Bonds

In September 1998, the Medical Center completed the issuance of $66,310,000 of 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 Medical Center for certain capital expenditures previously incurred by the District, 2) finance the acquisition, construction improvements, renovations and expansions of the Medical Center 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 percent 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 Internal Revenue Code (IRC), arbitrage rebate calculations indicate 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 every five years). Based on the prior year calculations and current year investment performance, management is of the opinion that the arbitrage liability at December 31, 2001, if any, would be immaterial.

5. MALPRACTICE INSURANCE:

During 1976, the State of Louisiana enacted legislation that created a statutory limit of $500,000 for each medical professional liability claim and established the Louisiana Patient Compensation Fund (State Insurance

Fund) to provide professional liability insurance to participating health care providers. The constitutionality of the statutory limit has been tested and sustained to date although additional challenges may be made in the future.

The Service District participates in the State Insurance Fund, which provides up to $400,000 coverage for settlement amounts in excess of $100,000 per claim. The Service District is self-insured with respect to the first $100,000 of each claim and has excess insurance coverage with an annual aggregate limit of $11,000,000 in excess of an annual deductible of $1,500,000. In addition, the Service District is insured for claims under $100,000 to the extent they exceed an annual aggregate of $500,000.

Malpractice suits involving claims of varying amounts have been filed against the Service District by various claimants. These actions are in various stages of processing and some may ultimately be tried before juries. The Service District believes the ultimate resolution of these claims will not have a material adverse effect on the Service District financial position or results of operations.

6. GOVERNMENTAL REGULATIONS:

The healthcare 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 healthcare 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 healthcare providers in recent years. Violations of these laws and regulations could result in expulsion from government healthcare 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 healthcare 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 healthcare 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 healthcare 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 October 2002. 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. Management is in the process of evaluating the impact of this legislation on its operations including future financial commitments that will be required to comply with the legislation.

7. EMPLOYEE BENEFITS:

Retirement Plan Description

The Service District contributes to the Retirement Plan for Employees of West Jefferson Medical Center (the Plan) which is a single-employer, noncontributory defined benefit pension public employee retirement system (PERS) which covers substantially all employees who meet certain length of service requirements. The Service District's total payroll for all employees and the Service District's total covered payroll for the year ended December 31, 2001, amounted to approximately $61,123,000 and $44,904,000, respectively, and $55,120,000 and $42,533,000, respectively, for the year ended December 31, 2000. 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 PERS provides retirement benefits as well as death and disability benefits. Benefits vest after five years of service (ten years at December 31, 2000) at which time benefits are 100 percent vested. The normal form of retirement benefit at age 65 is an actuarially equivalent joint and 50 percent contingent benefit payable for life in an amount approximating the sum of (1) 1.2 percent of final average monthly compensation multiplied by the number of years of credited service not in excess of thirty and (2) .65 percent of final average monthly compensation in excess of "covered" compensation multiplied by the number of years of credited service. The Plan issues a publicly available financial report that includes financial statements and required supplemental information.

Employer contributions to the Plan are invested primarily in equity and fixed income funds.

Funding Status

The amount shown below as pension benefit obligation was determined as part of an actuarial valuation as of January 1, 2001 and 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 when due and make comparisons with other plans.

Annual Pension Cost and Net Pension Obligation:

Annual required contribution	$1,016,964
Adjustment to annual required contribution	–
Annual pension cost	1,016,964
Contribution made	(484,946)
Increase in net pension obligation	532,018
Net pension obligation, beginning of year	484,946
Net pension obligation, end of year	$1,016,964

Significant actuarial assumptions used in the valuation include a rate of return on the investment of present and future assets of 8.5 percent per year, compounded annually, and projected salary increases based on merit of 5 percent per year.

Contributions

The funding policy of the PERS provides for periodic employer contributions at actuarially determined rates that are sufficient to fund normal costs and amortization of past service costs over 30 years. The actuarially determined contribution requirement accrued in 2001 (to be paid in 2002) was $1,016,964 and the contribution actually made in 2001 (accrued in 2000) was $484,946. The unfunded actuarial accrued liability as of January 1, 2002 was $6,012,387.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation.

Trend Information

Historical trend information as of January 1 is presented below in order 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
12/31/99	$ 794,067	100%	$ –
12/31/00	484,946	100%	484,946
12/31/01	1,016,964	1000%	1,016,964

The 2001 audited financial statements of the Plan include certain required supplementary information related to net actuarial value of assets and accrued liabilities, funded ratio 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 $219,000 in 2001 and $86,000 in 2000. Net assets and liabilities associated with the plans were approximately $1,323,000 and $1,297,000 at December 31, 2001 and 2000, respectively, and are included in current assets and liabilities in the accompanying combined financial statements.

8. 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 from patients and third-party payers at December 31, 2001 and 2000, was as follows:

	2001	2000
Medicare	19%	29%
Medicaid	13%	13%
Managed Care	28%	28%
Other third-party payers	30%	24%
Patients	10%	6%
	100%	100%

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Parish Council of Jefferson Parish:

We have audited the financial statements of Jefferson Parish Hospital Service District No. 1 (the Service District – a component unit of Jefferson Parish, Louisiana) as of and for the year ended December 31, 2001, and have issued our report thereon dated March 8, 2002. We conducted our audit in accordance with generally accepted auditing standards 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 the Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provision 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 the Service District'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 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 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 for the information of the audit committee and management, however, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

New Orleans, Louisiana
March 8, 2002

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RETIREMENT PLAN FOR EMPLOYEES OF WEST JEFFERSON MEDICAL CENTER

Financial Statements
As of December 31, 2001
Together With Auditors' Report

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Retirement Plan for Employees of
West Jefferson Medical Center:

We have audited the statements of Plan Net Assets and the Statement of Changes in Plan Net Assets of the Retirement Plan for Employees of West Jefferson Medical Center (the Plan) as of and for the years ended December 31, 2001 and 2000. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these 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 audits 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 financial statements referred to above present fairly, in all material respects, the financial status of the Plan at December 31, 2001 and 2000 and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States.

Out audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of funding progress, employer contributions and notes to the required supplementary information are presented in accordance with Governmental Accounting Standards Board Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report on our consideration of Jefferson Parish Hospital Service District No. 1's compliance and internal control over financial reporting dated March 8, 2002.

Arthur Andersen LLP

New Orleans, Louisiana
March 8, 2002

RETIREMENT PLAN FOR EMPLOYEES OF

WEST JEFFERSON MEDICAL CENTER

STATEMENTS OF PLAN NET ASSETS

DECEMBER 31, 2001 AND 2000

	2001	2000
ASSETS:		
Fixed income funds	$14,967,311	$11,704,842
Equity funds	23,109,765	22,899,458
Cash equivalents	480,957	6,627,518
Employer contributions receivable	1,016,964	484,946
Accrued income receivable	57,945	141,143
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$39,632,942	$41,857,907

The accompanying notes are an integral part of these financial statements.

RETIREMENT PLAN FOR EMPLOYEES OF

WEST JEFFERSON MEDICAL CENTER

STATEMENTS OF CHANGES IN PLAN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
ADDITIONS:		
Employer contributions	$ 1,016,964	$ 484,946
Net depreciation in fair value of plan investments	(962,341)	(2,368,935)
Dividend income	1,054,617	1,257,259
Realized (loss) gain on sale of investments	(1,799,285)	334,116
Total additions (deductions)	(690,045)	(292,614)
DEDUCTIONS:		
Benefits paid to participants and beneficiaries	1,480,115	1,273,764
Administrative expenses	54,805	61,583
Total deductions	1,534,920	1,335,347
NET DECREASE	(2,224,965)	(1,627,961)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, beginning of year	41,857,907	43,485,868
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, end of year	$39,632,942	$41,857,907

The accompanying notes are an integral part of these financial statements.

RETIREMENT PLAN FOR EMPLOYEES OF

WEST JEFFERSON MEDICAL CENTER

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

1. PLAN DESCRIPTION:

General

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 benefit public employee retirement system (PERS). The Plan covers substantially all employees of West Jefferson Medical Center (the Employer) who meet certain length of service requirements and is funded through employer contributions and investment earnings. As a governmental entity, the Plan provides disclosures required by the Governmental Accounting Standards Board (GASB).

Plan Membership

At December 31, the Plan's membership consisted of:

	2001	2000
Active employees	1,340	1,300
Retirees and beneficiaries currently receiving benefits	262	248
Terminated employees entitled to, but not yet receiving, benefits	348	304
Total plan membership	1,950	1,852

Eligibility Requirements

An employee is eligible to participate in the Plan as of the date he or she has completed one year of service and attained the age of 21.

Benefits

Retirement

The Plan provides retirement benefits as well as death and disability benefits. Prior to July 1, 2001 all benefits are fully vested after 10 years of credited service. (Effective July 1, 2001, 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 of (1) 1.2 percent of final average monthly compensation and (2) .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 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 beginning on the early retirement date.

Survivor Benefits

The survivor benefit provided under the Plan is a death benefit for a vested participant payable in the form of a survivor annuity. Such annuity payments are generally equal to 50 percent of the amount which would be payable to the participant if he 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.

Recent Accounting Pronouncements

GASB issued GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus," and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" which establish financial reporting standards for state and local governments. These statements establish that the financial statements should consist of management's discussion and analysis (MD&A) to provide an analytical overview of the entity's financial activities, basic financial statements and required supplementary information (RSI) as required by other GASB statements. These statements are required to be adopted January 1, 2002 for the Plan.

2. SUMMARY OF SIGNIFICANT
ACCOUNTING AND FINANCIAL REPORTING POLICIES:

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting.

Employer Contributions

Employer contributions are recognized as revenues in the period in which employee services are performed.

Investments

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.

Administrative Expenses

All administrative expenses of the Plan are paid by the Plan.

3. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE:

The funding policy of the Plan provides 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 requirements are the same as those used to compute the pension benefit obligation.

The actuarially determined contribution requirement for 2001, accrued by the employer and to be received by the Plan in 2002, was $1,016,964. The actual contribution paid by the Employer during 2001 relating to the 2000 contribution requirement was $484,946. The 2001 contribution requirement consisted of (a) $875,064 normal cost, (b) $62,230 amortization of the unfunded actuarial accrued liability and (c) $79,670 net interest cost.

4. INVESTMENTS:

The Plan has adopted certain investment policies, objectives, rules and guidelines which are intended to protect and preserve the Plan's assets while providing an appropriate return. The targeted overall mix of plan investments to meet these objectives is outlined below:

Investment Class	Target
Long-term bonds	15%
Intermediate bonds	20%
High-cap equities	45%
Growth equities	15%
Money market investments	5%

The fair value of individual investments that represent 5 percent or more of the Plan's total net assets as of December 31, 2001 and 2000 follows:

	2001	2000
Vanguard Prime Money Market Fund	$ 3,004,798	$ –
Vanguard Prime Long Term Treasury Fund	5,343,627	–
Vanguard Mid Cap Index Fund	3,796,134	–
Federated U. S. Government Trust Institutional Fund	6,618,886	7,120,123
Vanguard Institutional Index Fund	19,313,632	19,613,907
RMK Select Treasury Class A Fund	480,957	–
Vanguard Fixed Income Securities Fund	–	4,584,719
Federated Growth Strategies Fund	–	3,285,551
Regions Treasury Money Market Fund	–	6,627,518

5. HISTORICAL TREND INFORMATION:

Historical trend information which is designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented as Schedules 1 and 2.

RETIREMENT PLAN FOR EMPLOYEES OF

WEST JEFFERSON MEDICAL CENTER

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

DECEMBER 31, 2001

(1) Actuarial Valuation Date	(2) Value of Assets (AVA)	(3) Actuarial Accrued Liability (AAL)	(4) Actuarial Unfunded Accrued (Prefunded) Liability (UAAL) (3)-(2)	(5) Funded Ratio (2)/(3)	(6) Annual Covered Payroll	(7) Percent UAAL as of Payroll (4)/(6)
01/01/97	28,228,000	29,532,330	1,304,330	95.6%	37,269,213	3.5%
01/01/98	32,500,000	34,223,220	1,723,220	95.0%	40,276,838	4.3%
01/01/99	37,000,000	36,106,755	(893,245)	102.5%	40,631,521	-2.2%
01/01/00	43,400,000	39,030,435	(4,369,565)	111.2%	41,390,579	-10.6%
01/01/01	41,300,000	42,025,625	725,625	98.3%	42,532,749	1.7%
01/01/02	39,700,000	45,712,387	6,012,387	86.8%	44,903,940	13.4%

RETIREMENT PLAN FOR EMPLOYEES OF

WEST JEFFERSON MEDICAL CENTER

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

DECEMBER 31, 2001

Fiscal Year	Annual Required Contribution	Percentage Contributed
1996	1,140,375	100%
1997	911,398	100%
1998	1,039,785	100%
1999	794,067	100%
2000	484,946	100%
2001	1,016,964	100%*

*Expected to be contributed by May 31, 2002.

RETIREMENT PLAN FOR EMPLOYEES OF

WEST JEFFERSON MEDICAL CENTER

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2001

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

Valuation date	January 1, 2002
Actuarial cost method	Entry Age Normal
Amortization method	Level payments open
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.00%
Cost-of-living adjustments	None

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March 8, 2002

To the Board of Directors
West Jefferson Medical Center

We appreciate the opportunity to serve as the independent public accountants for West Jefferson Medical Center (the Medical Center) along with the opportunity to serve your board and management team. As part of our audit of the financial statements for the Medical Center for the year ended December 31, 2001, we considered the Medical Center's internal control structure in determining the scope of our audit procedures for the purposes of forming our opinion on the financial statements. While our primary purpose in this engagement was not to provide assurances on the internal control structure, we noted the matters outlined below that we want to bring to your attention.

Reconciliation of Accounts Receivable Subsidiary Ledger to General Ledger

The Accounts Receivable Subsidiary Ledger (HBOC) did not reconcile to the general ledger at year-end. Although a reconciliation effort is attempted monthly, there are unidentified differences at month-end, which we also noted were present during our interim work performed at June 30 and October 31, 2001. Management believes the unidentified differences are related to interface problems between the subsidiary ledger and the general ledger. We believe it is very important that the Medical Center continue to focus on these unidentified differences to determine the root cause of the differences and correct the unreconciled differences.

Management's response:

Management agrees with Andersen's observation. A Performance Improvement Team consisting of personnel from Patient Financial Services, Accounting and Information Systems has been initiated to identify the source of all reconciling items.

Updating of the Template for the Allowance for Doubtful Accounts Receivable

At the time of our audit, the template used to compute the allowance for doubtful accounts and the contractual for certain unbilled amounts had not been updated to reflect historical write off percentages by payor class as of December 31, 2001. At year-end, management updated the template at a summarized level in order to ensure the allowance was adequate as of December 31, 2001, and adjustments were recorded. We recommend that the template be updated by payor and by aging category to reflect the historical write-off percentages. We also recommend that the template be updated on a periodic basis, by payor class and by aging category, in order to reflect actual historical write-off percentages.

Management's response:

Management agrees with Andersen's observation. The Performance Improvement team referred to above will also re-develop the process for estimating the Allowance for Doubtful Accounts.

Reconciliation of Property Management System to General Ledger

We noted there are unreconciled differences between the property management system (property subsidiary ledger) and the general ledger. We recommend that these unreconciled amounts be properly addressed and resolved in order to ensure that amounts recorded as property by the Medical Center are supported by the property management system.

Management's response:

Management agrees with Andersen's observation. All unreconciled items will be addressed during 2002.

This letter and memorandum are intended solely for the information and the use of management and the Board of Directors and are not intended to be and should not be used by anyone else.

We wish to express our appreciation for the courtesies and cooperation extended to our representatives. We would be pleased to discuss these recommendations in greater detail or otherwise assist in their implementation.

Very truly yours,

Arthur Andersen LLP

Status of Prior Recommendations

	Implemented	Partially Implemented	Not Implemented
Aging of Accounts Receivable		X (1)	
Patient Credit Balances	X		
SERP Actuarial Valuation Report			X (2)
Access to Payroll System	X		

Note:

(1) See current year summary of results and recommendations.

(2) An actuarial valuation was not obtained for the executive retirement plan. The Medical Center did obtain a report from Management Compensation Group which projects the annual liability, indicating the Plan was adequately funded at December 31, 2001. We recommend, however, that the Medical Center obtain an actuarial valuation for the year ended December 31, 2002.