

ASSOCIATED HOSPITAL SERVICES, INC.  
FINANCIAL STATEMENTS FOR THE YEARS ENDED  
DECEMBER 31, 2006 AND 2005

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

Release Date

5/28/08

ASSOCIATED HOSPITAL SERVICES, INC.

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# PAILET, MEUNIER and LeBLANC, L.L.P.

Certified Public Accountants  
Management Consultants

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Associated Hospital Services, Inc.

We have audited the accompanying balance sheets of Associated Hospital Services, Inc. as December 31, 2006 and 2005, and the related statements of operations, members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company'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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 the 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 opinions.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Associated Hospital Services, Inc. at December 31, 2006 and 2005 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 of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2008, on our consideration of Associated Hospital Services, Inc.'s internal control over financial reporting and 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.

*Pailet, Meunier and Le Blanc, L.L.P.*

Metairie, Louisiana  
March 16, 2008



ASSOCIATED HOSPITAL SERVICES, INC.  
BALANCE SHEETS FOR DECEMBER 31,

	ASSETS	
	2006	2005
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 450,027	\$ 1,707,950
Accounts Receivable	764,931	3,391,752
Inventory:		
Linen Rentals	127,449	132,095
Prepaid expenses and other assets	5,989	7,259
Income taxes receivable:		
Current	91,739	257,529
Deferred	750,862	497,741
<b>Total Current Assets</b>	<b>\$ 2,190,997</b>	<b>\$ 5,994,326</b>
<b>Fixed Assets:</b>		
Property, Plant, and Equipment		
Land	239,946	239,946
Building	2,417,748	2,040,150
CBWS, Machinery, and Equipment	4,312,395	2,956,946
Office Equipment and Furniture	56,608	-
<b>Total Property, Plant, and Equipment</b>	7,026,697	5,237,042
Less Accumulated Depreciation	(3,123,320)	(3,436,955)
<b>Total Fixed Assets</b>	<b>3,903,377</b>	<b>1,800,087</b>
<b>TOTAL ASSETS</b>	<b>\$ 6,094,374</b>	<b>\$ 7,794,413</b>
	LIABILITIES AND MEMBERS' EQUITY	
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 1,069,759	\$ 3,123,063
Amounts due within one year on executive severance package	65,152	61,367
Short term debt - line of credit	750,000	-
<b>Total Current Liabilities</b>	<b>1,884,911</b>	<b>3,184,430</b>
<b>EXECUTIVE SEVERANCE PACKAGE-less amounts due within one year</b>	<b>142,608</b>	<b>207,760</b>
<b>DEFERRED INCOME TAXES</b>	<b>94,717</b>	<b>109,014</b>
<b>MEMBERS' EQUITY:</b>		
Paid In Capital	2,677,669	2,677,669
Retained Earnings	1,294,469	1,615,540
<b>Total Members' Equity</b>	<b>3,972,138</b>	<b>4,293,209</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 6,094,374</b>	<b>\$ 7,794,413</b>

SEE NOTES TO THE FINANCIAL STATEMENTS

ASSOCIATED HOSPITAL SERVICES, INC.

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31,

	<u>2006</u>	<u>2005</u>
REVENUES	\$ 5,197,272	\$ 8,280,672
COSTS AND EXPENSES	<u>5,805,660</u>	<u>9,329,561</u>
INCOME (LOSS) FROM OPERATIONS	<u>(608,388)</u>	<u>(1,048,889)</u>
OTHER INCOME (EXPENSE)		
Interest Income	94,087	43,246
Interest Expense	(49,412)	(17,297)
Insurance Reimbursements relating to Hurricane Katrina	-	1,696,230
Casualty Loss relating to Hurricane Katrina	<u>-</u>	<u>(1,503,525)</u>
Total Other Income (Expense)	<u>44,675</u>	<u>218,654</u>
INCOME BEFORE INCOME TAXES	<u>(563,713)</u>	<u>(830,235)</u>
INCOME TAX EXPENSE (BENEFIT):		
Current	-	(257,529)
Deferred	<u>(242,642)</u>	<u>(416,036)</u>
Total	<u>(242,642)</u>	<u>(673,565)</u>
NET INCOME (LOSS)	<u>\$ (321,071)</u>	<u>\$ (156,671)</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

ASSOCIATED HOSPITAL SERVICES, INC.

STATEMENTS OF MEMBERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL
BALANCE - JANUARY 1, 2005	\$ 2,677,669	\$ 1,772,211	\$ 4,449,880
NET INCOME	<u>-</u>	<u>(156,671)</u>	<u>(156,671)</u>
BALANCE - DECEMBER 31, 2005	2,677,669	1,615,540	4,293,209
NET INCOME	<u>-</u>	<u>(321,071)</u>	<u>(321,071)</u>
BALANCE - DECEMBER 31, 2006	<u>\$ 2,677,669</u>	<u>\$ 1,294,469</u>	<u>\$ 3,972,138</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

ASSOCIATED HOSPITAL SERVICES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
NET INCOME/(LOSS)	\$ (321,071)	\$ (156,671)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	509,103	247,170
Deferred income tax expense	(267,418)	(512,598)
(Gain)/Loss on sale of equipment	29,219	84,722
Executive severance package	(61,367)	(67,678)
Accounts receivable	2,626,821	(2,540,644)
Income taxes receivable	165,790	(257,529)
Inventory	4,646	847,951
Prepaid expenses and other assets	1,269	20,060
Accounts payable and accrued expenses	(2,053,303)	2,000,173
Income taxes payable	<u>-</u>	<u>(37,472)</u>
Net Cash provided by operating activities	<u>633,689</u>	<u>(372,515)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of equipment	34,000	5,795
Purchases of property, plant and equipment	<u>(2,675,612)</u>	<u>(275,106)</u>
Net cash provided by investing activities	<u>(2,641,612)</u>	<u>(269,311)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of short-term debt	<u>750,000</u>	<u>-</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	(1,257,923)	(641,826)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>1,707,950</u>	<u>2,349,776</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 450,027</u>	<u>\$ 1,707,950</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION - Cash paid during the year for:</b>		
Interest	<u>\$ 49,412</u>	<u>\$ 17,297</u>
Income Taxes	<u>\$ -</u>	<u>\$ 143,646</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

ASSOCIATED HOSPITAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization** – Associated Hospital Services, Inc. (the “Company”) is organized as a voluntary cooperative laundry operated for the benefit of its member-owner hospitals which are currently Jefferson Parish Hospital Service District No. 1 (West Jefferson Medical Center) and Jefferson Parish Hospital Service District No. 2 ( East Jefferson General Hospital).

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

**Cash Equivalents** – The Company considers all highly liquid investments with a maturity of three months or less or a cancelable term when purchased to be cash equivalents.

**Inventory** – Inventory consists of pack inventory and rental inventory, which are stated at amortized cost based on estimated usages using industry averages and actual uses. As a result of Hurricane Katrina (see Note 8), pack inventory was discontinued.

**Property, Plant and Equipment** – Property, plant and equipment is stated at cost. For financial reporting purposes, the Company provided depreciation for its building and improvements using the straight-line method and uses the double-declining balance and straight-line methods for its equipment, with useful lives ranging from 3 to 31.5 years. The Company uses various other cost recovery methods for federal income tax purposes.

**Leases** – Operating lease rental expense relating to the rental of delivery trucks under cancelable lease arrangements was approximately \$ 114,000 for the year ended December 31, 2006 and approximately \$ 139,000 for the year ended December 31, 2005.

**Income Taxes** – The Company uses the liability method of accounting for income taxes in which tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws in effect when the differences are expected to reverse.

2. INTEREST EXPENSE

Interest expense relating to short term debt - line of credit and executive severance in the amount of \$ 49,412 was paid in 2006 and interest expense amounting to \$ 17,297 was paid in 2005 relating to executive severance.

ASSOCIATED HOSPITAL SERVICES, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

3. INCOME TAXES

The tax effects of significant components of the Company's deferred tax assets and liabilities as of December 31, 2006 and 2005 were as follows:

Deferred tax assets:	2006	2005
Executive severance package	\$ 78,949	\$ 101,508
State net operating loss	77,778	57,345
Federal net operating loss	520,335	310,776
General business credit	54,267	33,058
Net operating loss carryback to prior years	91,739	257,529
Charitable contributions	76,000	76,000
Total deferred tax assets	899,068	836,216
Deferred tax liabilities:		
Property, plant and equipment	148,908	187,202
Prepaid insurance	2,276	2,758
Total deferred tax liabilities	151,184	189,960
Net deferred tax liabilities	\$ 747,884	\$ 646,256

The Company's 2006 and 2005 effective tax rates differ from the statutory rate primarily due to the nondeductibility of certain expenses, including amounts relating to meals and entertainment.

Net operating loss carryforwards aggregating approximately \$ 1,944,451 for State purposes expire between 2012 and 2021. Federal net operating loss carryforwards aggregating approximately \$ 1,369,302 expire between 2024 and 2026. Federal general business tax credits in the amount of \$ 54,267 may be used only against income tax liabilities. Under current federal tax law, charitable contributions in the amount of \$ 200,000 may be carried forward and utilized as a limited deduction against income.

4. RETIREMENT PLAN

In 2002, the Company started a 401(k) plan for its employees. The Company matches 100% of the employee's first 3% of salary contributed and ½% for the 4th% and 5th% of salary contributed. The Company's contributions for each of the years ended December 31, 2006 and 2005 were approximately \$ 43,350 and \$ 56,000 respectively.

ASSOCIATED HOSPITAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

5. RELATED PARTY TRANSACTIONS

The Company operates as a laundry facility and a centralized linen purchaser for members and other third parties. Revenues derived from member transactions for each of the years ended December 31, 2006 and 2005 were \$ 3,020,519 and \$ 3,584,495 respectively.

Included in accounts receivable are receivables and finance charges from members of approximately \$ 320,550 and \$ 1,325,529 at December 31, 2006 and 2005, respectively. Receivables are not collateralized.

6. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. Substantially all of the Company's receivables are due from hospitals, doctors and other health care institutions. The Company manages the receivables by regularly reviewing its accounts and contracts and by providing appropriate allowances for uncollectible amounts when necessary. Credit losses have not been significant.

In addition to revenues derived from members (see Note 5), approximately \$ 1.2 million and \$ 1.0 million of revenues were derived from one third-party customer during the years ended December 31, 2006 and 2005 respectively.

7. EXECUTIVE SEVERANCE PACKAGE

Effective December 31, 2004, the Company entered into a severance agreement with its former Chief Executive Officer the terms of which require the Company to pay ten equal semi-annual installments of \$ 38,400 each January 1 and July 1 commencing January 1, 2005. Included in the results of operations for 2004 is a charge of \$ 336,805 representing the net present value of amounts payable to the former Chief Executive Officer.

Annual principal maturities of amount payable under the severance agreement for each of the years following December 31, 2006 are as follow:

2007	\$ 65,152
2008	69,171
2009	<u>73,437</u>
Total	<u>\$ 207,760</u>

ASSOCIATED HOSPITAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

8. HURRICANE KATRINA

On August 29, 2005 Hurricane Katrina struck New Orleans. Associated Hospital Services, Inc.'s plant was impacted by flooding and wind damage and was closed until April, 2006. During that time a number of customers were lost and have not been replaced. Services were provided to those existing and continuing customers through the use of other contracted laundry facilities. Associated Hospital Services, Inc. suffered casualty losses amounting to a book value of \$ 1,503,525. Insurance proceeds amounting to \$ 200,000 were collected in 2005, \$ 1,315,689 in 2006 and \$ 180,541 in 2007. Additional amounts are being requested, but the amount that may be received, if any, is not known at this time.

9. RESIGNATION OF PRESIDENT/CEO

The President and Chief Executive Officer tendered his resignation in 2006. At the time of his resignation, his vested interest in the Company's Deferred Compensation Plan was \$ 159,906 which was paid in 2006.

The Company had a defined contribution plan which covered the prior President/CEO. The amount of the employer contribution was calculated by multiplying the participant's annual compensation by the applicable contribution factor determined each year by the Board of Directors. The contributions to the plan for the years ended December 31, 2006 and 2005 were approximately \$ 7,300 and \$ 18,000 respectively .

10. SUBSEQUENT EVENTS

Line of Credit

In 2006 Associated Hospital Services, Inc. (AHSI) executed a Line of Credit Note in the amount of \$ 1,000,000. This line of credit was renewed to November 30, 2007. An amount of \$ 750,000 was drawn against the line of credit; however, all borrowed funds were repaid and the line of credit expired on November 30, 2007.

Insurance Proceeds

Associated Hospital Services, Inc. received \$ 180,541 in 2007 from insurance companies for losses incurred due to Hurricane Katrina.

Member Contributions

Associated Hospital Services, Inc.'s (the "Company") members, Jefferson Parish Hospital Service District No. 1 (West Jefferson Medical Center) and Jefferson Parish Hospital Service District No. 2 ( East Jefferson General Hospital) each contributed \$409,358 to the Company in 2007.

# PAILET, MEUNIER and LeBLANC, L.L.P.

Certified Public Accountants  
Management Consultants

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

To the Board of Directors  
Associated Hospital Services, Inc.

We have audited the financial statements of Associated Hospital Services, Inc. as of and for the year ended December 31, 2006, and have issued our report thereon dated March 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

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

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

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

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## Compliance and Other Matters

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

This report is intended solely for the information and use of the Legislative Auditor, audit committee, management, others within the organization and grant awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Paulet, Meunier and LeBlanc, L.L.P.*

Metairie, Louisiana  
March 16, 2008