ARTHUR ANDERSEN

EAST JEFFERSON GENERAL HOSPITAL

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1999 AND 1998 WITH REPORT OF INDEPENDENT AUDITORS

ARTHUR ANDERSEN

REPORT OF INDEPENDENT AUDITORS

The East Jefferson Hospital Board
Jefferson Parish Hospital Service District No. 2,
Jefferson Parish, Louisiana:

We have audited the accompanying balance sheets of East Jefferson General Hospital (the Hospital - Jefferson Parish Hospital Service District No. 2, a component unit of Jefferson Parish, Louisiana) as of December 31, 1999 and 1998, and the related statements of revenues, expenses and fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and in accordance with the standards for financial audits contained in Government Auditing Standards (1994 Revision) 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 financial statements referred to above present fairly, in all material respects, the financial position of the Hospital, as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report on our consideration of the Hospital's compliance and internal controls over financial reporting dated February 25, 2000.

The retirement plan information on page 17 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information; however, we did not audit the information and express no opinion on it.

Arthur Andersen LLP

New Orleans, Louisiana,
February 25, 2000

EAST JEFFERSON GENERAL HOSPITAL

BALANCE SHEETS

DECEMBER 31, 1999 AND 1998

ASSETS

	December 31, 1999	December 31, 1998
CURRENT ASSETS:		
Cash and cash equivalents (Notes 1 and 2)	$ 705,917	$ 2,069,091
Short-term investments	48,169,146	94,601,552
Patient accounts receivable, less allowance for uncollectible accounts (1999 - $29,777,570; 1998 - $23,736,386)	55,673,141	44,696,698
Assets whose use is limited and required for current liabilities	7,975,583	4,610,334
Other receivables	3,942,597	3,547,889
Inventories (Note 1)	4,366,224	2,371,072
Prepaid expenses	8,409,877	6,168,622
Total current assets	129,242,485	158,065,258
ASSETS WHOSE USE IS LIMITED including cash, cash equivalents and investments (Note 2):		
Under bond ordinances	9,822,257	6,713,567
By Board for specific purposes	243,946,641	122,869,175
Total assets whose use is limited	253,768,898	129,582,742
Less assets whose use is limited and required for current liabilities	(7,975,583)	(4,610,334)
Noncurrent assets whose use is limited	245,793,315	124,972,408
PROPERTY, PLANT AND EQUIPMENT, net (Notes 1 and 3)	186,425,954	169,017,241
OTHER ASSETS:		
Net investment in direct financing leases (Note 5)	9,158,401	8,917,083
Unamortized debt issuance costs	5,835,219	2,468,581
Other (Notes 1 and 9)	3,800,876	6,644,767
Total other assets	18,794,496	18,030,431
Total	$580,256,250	$470,085,338

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

EAST JEFFERSON GENERAL HOSPITAL

BALANCE SHEETS

DECEMBER 31, 1999 AND 1998

LIABILITIES AND FUND BALANCE

	December 31, 1999	December 31, 1998
CURRENT LIABILITIES:		
Trade accounts payable	$ 17,143,750	$ 14,799,446
Amounts due to contractual third-party payors	3,465,001	6,240,305
Accrued interest	5,056,108	1,867,999
Other accrued expenses	16,408,707	16,271,389
Current portion of capital lease obligation	416,056	379,475
Current portion of long-term debt	2,488,199	2,362,860
Total current liabilities	44,977,821	41,921,474
ACCRUED PENSION LIABILITY (Note 6)	6,871,204	6,680,201
CAPITAL LEASE OBLIGATION, less current portion (Note 5)	11,626,155	12,042,210
LONG-TERM DEBT, less current portion (Note 4)	234,840,000	112,328,196
CONTINGENCIES (Note 7)	-	-
FUND BALANCE	281,941,070	297,113,257
	$580,256,250	$470,085,338

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

EAST JEFFERSON GENERAL HOSPITAL

STATEMENTS OF REVENUES, EXPENSES AND FUND BALANCE

FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	December 31, 1999	December 31, 1998
OPERATING REVENUES:		
Net patient service revenue	$250,358,121	$243,804,798
Other operating revenues	3,806,289	2,445,731
Total operating revenues	254,164,410	246,250,529
OPERATING EXPENSES:		
Salaries, wages and benefits	119,051,126	112,972,427
Purchased services and other	62,844,451	57,518,785
Supplies	32,787,840	27,507,587
Provision for bad debts	21,646,634	18,131,563
Depreciation and amortization	17,186,722	17,196,698
Interest expense, net of interest income from bond fund investments of $2,878,983 in 1999 and $1,918,540 in 1998	9,399,471	4,445,515
Total operating expenses	262,916,244	237,772,575
INCOME (LOSS) FROM OPERATIONS	(8,751,834)	8,477,954
NON-OPERATING REVENUES (EXPENSES):		
Interest earned on and realized gains on sales of investments	14,488,601	11,848,649
Net increase (decrease) in fair market value of investments	(9,939,379)	1,233,158
Losses on investment in health maintenance organization	(10,526,095)	-
Rental income from leases	1,468,051	1,357,558
Community benefit services (Note 1)	(966,317)	(949,518)
Other	269,338	23,569
Total non-operating revenues (expenses)	(5,205,801)	13,513,416
REVENUES OVER (UNDER) EXPENSES	(13,957,635)	21,991,370
FUND BALANCE AT BEGINNING OF PERIOD	297,113,257	276,370,743
TRANSFERS TO JEFFERSON PARISH (Note 1)	(1,214,552)	(1,248,856)
FUND BALANCE AT END OF PERIOD	$281,941,070	$297,113,257

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

EAST JEFFERSON GENERAL HOSPITAL

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	December 31, 1999	December 31, 1998
OPERATING ACTIVITIES:		
Income (loss) from operations	$ (8,751,834)	$ 8,477,954
Adjustments to reconcile income from operations to net cash provided by operating activities-		
Depreciation and amortization	17,186,722	17,196,698
Interest earned on unexpended bond proceeds	(2,878,983)	(1,918,540)
Interest expense on bonds and capital lease obligations	12,584,716	6,364,055
Gain on sale of equipment	(52,873)	-
Changes in operating assets and liabilities-		
Patient accounts receivable	(10,976,443)	(7,593,209)
Other receivables, inventories and prepaid expenses	(4,631,115)	430,725
Other assets, net	1,970,494	1,160,390
Amounts due to contractual third-party payors	(2,775,304)	(8,311,849)
Trade accounts payable, accrued expenses and accrued interest	5,669,731	(3,361,077)
Accrued pension liability	191,003	132,497
Net cash provided by (used in) operating activities	7,536,114	12,577,644
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of property, plant and equipment	(34,340,464)	(20,950,369)
Proceeds from disposals of property, plant and equipment	776,708	774
Proceeds from bond issuance, net	121,527,953	-
Principal payments on debt and capital lease obligations	(2,742,331)	(2,595,184)
Interest payments on debt and capital lease obligations	(12,278,454)	(6,442,971)
Net cash provided by (used in) capital and related financing activities	72,943,412	(29,987,750)
NON-CAPITAL FINANCING ACTIVITIES:		
Unrestricted contributions	75,000	25,150
Transfer to Jefferson Parish	(1,214,552)	(1,248,856)
Community benefit services	(966,317)	(949,518)
Net cash used in noncapital financing activities	(2,105,869)	(2,173,224)
INVESTING ACTIVITIES:		
Investment income and other	4,549,222	14,033,114
Payments received on direct financing leases	297,602	272,705
Lease rentals	978,924	840,351
Cash funding of investment in HMO	(7,711,652)	-
Purchases of investment securities	(2,627,105,346)	(1,818,121,107)
Proceeds from sales and maturities of investment securities	2,549,028,954	1,822,793,491
Net cash provided by (used in) investing activities	(79,962,296)	19,818,554
Increase (decrease) in cash and cash equivalents	(1,588,639)	235,224
Cash and cash equivalents at beginning of period	12,357,177	12,121,953
Cash and cash equivalents at end of period	$ 10,768,538	$ 12,357,177

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

East Jefferson General Hospital (the Hospital) is organized as Jefferson Parish Hospital Service District No. 2 (the District) by the Parish Council of Jefferson Parish, Louisiana (the Parish) under provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950 and is exempt from Federal and state income taxes. The Hospital operates an acute care hospital and physician practices and owns certain medical office buildings. The Hospital reports in accordance with the American Institute of Certified Public Accountants' (AICPA) "Audit and Accounting Guide-Health Care Organizations" and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). In preparing the consolidated financial statements, the Hospital is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant accounting policies used by the Hospital in preparing and presenting its 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 payors. The carrying amounts reported in the balance sheet approximate fair value.

Investments

Investments are recorded at fair value in accordance with Governmental Accounting Standards Board Statement No. 31 (GASB 31) "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

Funds that were established in connection with the issuance of the Revenue Bonds are maintained by a trustee in special trust accounts for the benefit and security of the holders and owners of the debt and are reported as assets whose use is limited under bond ordinances. Interest earned on investments in these funds is recorded as non-operating income, except for interest on unexpended borrowed funds which is recorded as a reduction of interest expense within operations. Interest earned by the investments held in trust is retained in the funds and used for the purposes described in the respective bond ordinances. All other investment income is recorded as non-operating revenue.

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 provided using the straight-line method over estimated useful lives as follows:

Land improvements	20 years
Buildings	30 years
Fixed equipment	15 years
Major movable equipment	5 years
Minor equipment	3 years

Interest capitalized on construction, approximately $901,000 in 1999 and $527,000 in 1998, is amortized using the straight-line method over the useful lives of the constructed assets.

Costs of Borrowing

Costs incurred in connection with the issuance of bonds, including original issue discount, are amortized over the period the bonds are expected to be outstanding using the effective interest method.

Other Assets

Other assets consist primarily of the Hospital's interest in a Health Maintenance Organization (HMO) and an interest in a shared laundry co-operative, both of which are accounted for under the equity method of accounting, and an interest in a partnership which has developed a medical office building (see Note 5). On December 30, 1999 the Hospital sold its interest in the HMO (see Note 9).

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net amounts realizable from patients, third-party payors 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 when final settlements are determined. Government health care program receivables include settlements for 1992 and subsequent years which are subject to audit and retroactive adjustment by the intermediary and the Department of Health and Human Services. Management does not anticipate significant adjustments by the intermediary to its recorded Medicare and Medicaid settlements for the years for which the intermediary has not determined final settlements. Payment arrangements with major third-party payors are summarized below:

- Government Programs - Services rendered to most Medicare and Medicaid program beneficiaries are paid at prospectively determined rates or fee schedules which may vary according to a patient classification system based on clinical, diagnostic and other factors. The Hospital is paid for certain cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary.

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

The Hospital derives a significant amount (approximately 46% in 1999 and 42% in 1998) of its net patient service revenue from patients covered by the Medicare and Medicaid programs and by Medicare HMO insurance plans.

Charity Care and Services Provided to Benefit the Community

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its uncompensated care policy. Because the Hospital does not pursue collection of amounts determined to qualify as uncompensated care, these amounts are not reported as revenue. Uncompensated care provided, measured at established rates, approximated $3,966,000 in 1999 and $4,742,000 in 1998.

Community benefit services represents the cost of providing services such as ambulance services, public speeches on healthcare issues to the Parish and funding of a community health center.

The Hospital transferred $683,051 in 1999 and $651,607 in 1998 to the Parish to fund a medical facility at the Parish prison; additional transfers of $531,501 in 1999 and $597,249 in 1998 were made to fund other Parish programs. These transfers have been recorded in the Hospital's financial statements as transfers of fund balance.

Gifts, Grants and Bequests

Gifts, grants and bequests not designated by donors for specific purposes are reported as non-operating revenues regardless of the use for which they might be designated by the governing board.

Reclassifications

Certain reclassifications have been made to previously reported balances to conform to the current year presentation.

2. CASH AND INVESTMENTS:

The Hospital's cash, cash equivalents and investment balances at December 31, 1999 and 1998 consist of the following:

	1999	1998
Cash and repurchase agreements	$ 705,917	$ 3,803,121
Money market accounts	10,062,621	8,554,056
Total cash and cash equivalents	10,768,538	12,357,177
U. S. Government obligations	289,166,094	212,555,290
Certificates of deposit (with maturities of more than three months when purchased)	125,000	125,000
Accrued interest receivable	2,584,329	1,215,918
Fair market value	$ 302,643,961	$226,253,385

These balances are presented in the balance sheets as summarized below:

	1999	1998
Current assets:		
Cash and cash equivalents	$ 705,917	$ 2,069,091
Short-term investments	48,169,146	94,601,552
Assets whose use is limited	253,768,898	129,582,742
	$ 302,643,961	$226,253,385

Louisiana state statutes authorize the Hospital to invest in direct obligations of the U. S. Treasury and other Federal Agencies, time deposits with state banks and national banks having their principal office in the State of Louisiana, guaranteed investment contracts issued by highly rated financial institutions and certain investments with qualifying mutual or trust fund institutions. Louisiana statutes also require that all of the deposits of the Hospital be protected by insurance or collateral. The market value of collateral pledged must equal or exceed 100% of the deposits not covered by insurance. The bank balances of deposits at December 31, 1999 and 1998 were entirely covered by insurance or collateral held by financial institutions in the Hospital's name.

The Hospital's investments are categorized below to give an indication of the level of risk assumed at year end. Category (1) includes investments that are insured or registered for which the securities are held by the Hospital or its agent in the Hospital's name. Category (2) includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Hospital's name. Category (3) 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 Hospital's name. Balances at December 31, 1999 were as follows:

	Credit Risk Category			Total Fair
	(1)	(2)	(3)	Value
Securities Type:				
U.S. Government obligations	$ -	$289,166,094	$ -	$289,166,094
Cash and cash equivalents, certificates of deposit and accrued interest receivable	13,477,867	-	-	13,477,867
Total investments	$ 13,477,867	$289,166,094	$ -	$302,643,961

3. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment at December 31, 1999 and 1998 consists of:

	1999	1998
Land and land improvements	$ 15,065,915	$ 12,755,843
Buildings	155,838,129	147,006,374
Equipment	149,882,502	137,359,792
Construction in progress	26,321,505	17,059,733
Total	347,108,051	314,181,742
Less - accumulated depreciation and amortization	(160,682,097)	(145,164,501)
Property, plant and equipment, net	$ 186,425,954	$ 169,017,241

4. LONG-TERM DEBT:

Long-term debt at December 31, 1999 and 1998 consists of:

	1999	1998
Hospital Revenue Bonds, Series 1998	$125,000,000	$ –
Hospital Revenue Refunding Bonds, Series 1993; 3.1% - 5.7%, due in installments to 2016	56,965,000	58,990,000
Customized Purchase Hospital Revenue Bonds, Series 1985	55,000,000	55,000,000
Note payable, collateralized by mortgage on land and medical clinic building	363,199	701,056
Total	237,328,199	114,691,056
Less: Current maturities	(2,488,199)	(2,362,860)
Long-term debt, less current maturities	$234,840,000	$112,328,196

In 1985, the District issued $55,000,000 in Customized Purchase Hospital Revenue Bonds, Series 1985 (the 1985 Bonds). The bonds carry a variable rate of interest which was 5.25% at December 31, 1999. The proceeds of the 1985 Bonds were used primarily to finance construction of improvements and purchases of equipment and to fund a debt service reserve account and capitalized interest account in accordance with the indenture agreement. In connection with the 1985 Bonds, the District received a Transferable Irrevocable Direct Pay Letter of Credit in the amount of $56,310,960 issued by the Mitsubishi Bank, Limited which required the District to establish a collateral trust fund equal to the amount of the letter of credit. The letter of credit expired on December 30, 1992. Upon expiration of the letter of credit, the collateral trust fund was no longer required; however, the Hospital's board designated $55,000,000 of investments for the retirement of the 1985 Bonds. On December 31, 1992, a municipal bond insurance policy issued by Financial Guaranty Insurance Company (FGIC) was substituted for the letter of credit. Payment of the purchase price of the 1985 Bonds tendered by registered owners thereof and not remarketed as provided in the 1985 Bond Ordinance, is to be made pursuant and subject to the terms of the Standby Bond Purchase Agreement dated as of December 1, 1992, by and between the trustee and FGIC Securities Purchase, Inc. Effective November 15, 1999 the Standby Bond Repurchase Agreement was superseded by an Escrow Reinvestment Agreement between Bank One Trust Company, N.A. (escrow agent) and Chase Manhattan Bank. Under this agreement Chase Manhattan provided U. S. Government securities to the escrow agent which are sufficient to provide for the payment of principal and interest on the debt through maturity.

On March 24, 1993, the District issued $64,575,000 in Revenue Refunding Bonds, Series 1993 (the 1993 Bonds) to advance refund a portion of the then outstanding 1986 Bonds that carried interest rates ranging from 3.1% to 5.75%. The $60,960,146 net proceeds (after deduction of $2,048,556 in discount and payment of $1,566,298 in underwriting fees, insurance and other costs of issuance) from issuance of the 1993 Bonds were invested in U. S. Government securities and deposited in an irrevocable trust with an escrow agent to provide funds which, together with interest earned, are sufficient to provide for the payment of principal and interest on the advance refunded debt.

On January 19, 1999, the District issued $125,000,000 in Hospital Revenue Bonds, Series 1998 (the 1998 Bonds). The $121,338,000 net proceeds (after deductions of $553,236 in discount and payment of $3,108,764 in underwriting fees, insurance and other costs of issuance) from issuance of the 1998 Bonds is being used to pay or reimburse the District for the costs of the acquisition or construction of capital improvements, extensions, additions, enlargements or alterations to the Hospital. The 1998 Bonds carry interest rate ranging from 4.0% to 5.25% and are due in installments from July 1, 2002 through July 1, 2028.

The 1985, 1993 and 1998 Bonds are collateralized by a pledge of all patient accounts receivable and future operating revenue of the Hospital. Sinking fund payments on the Hospital's Bonds and maturities of notes payable are as follows:

	1998 Bonds	Other	Total
2000	$ -	$ 2,488,199	$ 2,488,199
2001	-	2,230,000	2,230,000
2002	2,355,000	2,345,000	4,700,000
2003	2,450,000	2,470,000	4,920,000
2004	2,550,000	2,600,000	5,150,000
Thereafter	117,645,000	100,195,000	217,840,000
Total	$ 125,000,000	$ 112,328,199	$ 237,328,199

The District issued $18,000,000 of bonds to expand and improve the Hospital facilities on October 1, 1975. Effective February 1, 1985, the Hospital created an irrevocable trust to provide for payment and retirement of the 1975 Series Revenue Bonds (the 1975 Bonds). As the Hospital has no further liability under the revenue bond resolution, the transaction was treated as an early extinguishment of debt. Of the 1975 Bonds which were defeased, $1,735,000 and $3,330,000, remained outstanding at December 31, 1999 and 1998, respectively.

5. LEASES:

Capital Leases

During 1987, the Hospital granted a ground lease through March 31, 2017 to a medical partnership for the purpose of constructing a medical building housing a magnetic resonance imaging (MRI) unit and radiation therapy (RT) equipment. The improvements on the leased land are to revert to the Hospital upon termination of the lease at no cost to the Hospital. The Hospital leases the MRI and RT building from the medical partnership under a lease which expires on March 31, 2017. In 1993, the Hospital amended the terms of the lease to revise the base rental amounts and eliminate a percentage rent requirement contained in the original lease and recorded the lease as a capital lease resulting in an increase in equipment and capital lease obligations of $5,009,000. Total base rental payments made by the Hospital in connection with the lease of the MRI and RT building were approximately $700,000 annually during 1999 and 1998. The base rent is to be increased or decreased as may be necessary to account for increases or decreases in the Hospital's share of operating and financing expenses, as defined in the agreement. In addition, the portion of the base rent which is in excess of the base operating expense and the base financing expense is subject to a one percent (1%) annual cumulative escalation during the term of the lease.

The Hospital granted a ground lease through December 31, 2035 to East Jefferson General Hospital Foundation (the Foundation), a related party through common management, and two other ground leases to developers, for the development, construction and operation of a parking garage, and physician office buildings, respectively. The developer of one of the physician office buildings (MOB I) is a limited partnership composed of a 5% general partner, medical staff physicians who are tenants in the building and limited partners. The developer of the second office building (MOB II) is a limited partnership composed of a 5% general partner, medical staff physicians and the Hospital. The improvements constructed on the leased land are to revert to the Hospital, without cost, upon termination of the leases. The Hospital has a 52.75% limited partnership ownership interest in the MOB II limited partnership which had assets, primarily building and tenant improvements, of $12.8 million and debt of $11.2 million at December 31, 1999 and had earnings of $31,000 in 1999. The Hospital leases the parking garage from the Foundation under a capital lease which expires in 2017 and it is included in buildings at a carrying value of $8,347,000, less accumulated amortization of $3,533,000 at December 31, 1999 and $3,255,000 at December 31, 1998. Base rental payments payable to the Foundation under this lease reimburse the Foundation for the monthly debt service. The future minimum rental commitments payable at December 31, 1999 on capitalized leases are as follows:

	Capitalized Leases
2000	$ 1,945,305
2001	1,906,746
2002	1,780,161
2003	1,785,753
2004	1,791,399
Thereafter	22,586,182
Total minimum lease payments	31,795,546
Less amount representing executory costs (i.e., operating expenses) included in total minimum lease payments	7,599,391
Net minimum lease payments	24,196,155
Less amount representing interest	(12,153,944)
Present value of net minimum lease payments (including $416,056 classified as a current liability)	$ 12,042,211

The Hospital purchased two medical office buildings and the related land for $3,415,000 in October 1987 and $12,680,000 in January 1990, both of which were leased back to the sellers for periods of 30 years and 50 years, respectively. The land portions of these transactions were accounted for as operating leases. In October 1992, the land and building purchased by the Hospital in 1987 were donated to Jefferson Parish and removed from the Hospital's accounts. The Hospital's remaining investment in land at December 31, 1999 was $5,381,000 and the Hospital is to receive minimum future rentals of approximately $410,000 per year (aggregating $16,810,000) on this lease. The building portion of the net investment in direct financing leases is summarized below:

	1999	*1998*
Total minimum lease payments to be received	$ 25,985,310	$ 25,985,310
Less unearned income	(16,826,909)	(17,068,227)
Net investment in directing financing lease	$ 9,158,401	$ 8,917,083

Annual lease payments to be received on the rental of the building for each of the next five years total $2,907,280.

Operating Leases

The Hospital leases certain equipment and office space under operating leases primarily on a month-to-month basis. Rent expense under these leases totaled approximately $2,756,000 and $2,691,000 in 1999 and 1998.

6. BENEFIT PLANS:

Description of Pension Plan

The Hospital contributes to the Retirement Plan for Employees of East Jefferson General Hospital (the Plan) which is a single-employer, noncontributory defined benefit public employee retirement system (PERS). The Plan is sponsored by the Hospital to provide retirement benefits as well as death benefits. All full-time employees at least 21 years of age with at least one year of credited service are eligible to participate in the Plan. Plan benefits vest after five years of credited service. Employees who retire at or after age 62 with 10 years of credited service are entitled to an annual retirement benefit payable monthly for life. For the year ended December 31, 1999 the Hospital's total payroll for all employees was approximately $98,675,000 and the Hospital's total covered payroll (for pension plan participants) was approximately $86,304,000. Covered payroll refers to all compensation paid by the Hospital to active employees covered by the Plan on which contributions to the Plan are based.

The benefit provisions of the Plan consist of current and prior accrued benefits. The current benefit provided is equal to .75% of the participant's annual earnings for each Plan year commencing after December 31, 1988, plus .5% of the participant's annual earnings in excess of covered compensation, as defined by the Plan, for each Plan year commencing after December 31, 1988, for up to 35 years of benefit service. The prior accrued benefit provided was equal to 30% of the participant's final average monthly earnings in excess of the Social Security Maximum Wage Average. Certain Plan participants are also entitled to supplemental benefits as specifically defined in the Plan. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to East Jefferson General Hospital, Administration Department or by calling (504) 454-4000.

Basis of Accounting

The Plan assets are held in various assets including U.S. Government and Agency issues, equity securities, mutual funds and guaranteed investment contracts with a life insurance company. The Plan's asset value is the fund value as reported by the life insurance company, which is a book value with part of the fund subject to a market value adjustment should the contract be terminated.

Funding Status and Progress

The amount shown as the pension obligation in the following table is a standardized disclosure measure of the present value of pension benefits, adjusted beginning January 1, 1999 for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The measure, which is independent of the actuarial funding method used to determine contributions to the Plan, is the actuarial present value of credited projected benefits. The measure is intended to help users assess the Plan's funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due.

Significant actuarial assumptions used in 1999 and 1998 include a rate of return on the investment of present and future assets of 8.5% per year compounded annually and a combined projected salary increase attributable to inflation and seniority/merit of 5% per year compounded annually.

Annual Pension Cost and Net Pension Obligation

Annual required contribution	$ 1,659,191
Adjustment to annual required contribution	190,809
Annual pension cost	1,850,000
Contribution made	1,659,000
Increase in net pension obligation	191,000
Net pension obligation beginning of 1999	6,680,000
Net pension obligation end of 1999	$ 6,871,000

Contributions Required and Contributions Made

The funding policy of the Plan provides for actuarially determined periodic employer contributions at rates that, for individual employees, remain fairly constant over time so that sufficient assets will be available to pay benefits when due. The contribution rate for normal cost is determined using the Unit Credit actuarial cost method. The Plan is being funded based on its normal cost, as actuarially determined, reduced by amounts sufficient to amortize an overfunded amount from prior years over a ten-year period. The Hospital made contributions of approximately $1,659,000 in 1999 and $1,418,000 in 1998 and is fully funded according to Internal Revenue Service funding limitations. A total of $1,850,000 has been accrued as a pension liability through December 31, 1999. Significant actuarial assumptions used to compute the contribution required are the same as those used to compute the standardized measure of the pension benefit obligation.

Trend Information

Trend information related to the Plan is as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/97	1,615,000	84%	6,548,000
12/31/98	1,550,000	91%	6,680,000
12/31/99	1,850,000	90%	6,871,000

Employee Savings Plan

Effective September 15, 1989, the Hospital adopted the East Jefferson General Hospital Savings Plan (the Savings Plan) for the benefit of eligible employees. Benefits under the Plan are payable upon the retirement/disability of the participant or termination of the participants' employment. The Hospital believes the Savings Plan qualifies under Sections 401(a) and 501(a) of the Internal Revenue Code of 1986, as applicable to governmental plans.

Employees who have attained the age of 21 and completed one year of service are eligible to become participants in the Savings Plan. Savings Plan participants may elect to make after-tax contributions (After-Tax Deposits) up to a maximum of 6% of their Savings Plan Compensation, as defined in the Savings Plan Agreement. The Savings Plan Agreement provides that the Hospital contribute 2% of participants' Savings Plan Compensation each year (Hospital Basic Deposits) and match participant contributions up to 2% of the participants' Savings Plan Compensation (Hospital Matching Deposits).

Savings Plan assets are invested in an equity fund (consisting primarily of common stocks) or a guaranteed investment contract fund with a commercial insurance company, as elected by plan participants. A separate account is established for each Savings Plan participant. Participants have a nonforfeitable right to the value of their After-Tax Deposits at any time and become 100% vested in Hospital Basic Deposits and Hospital Matching Deposits upon the completion of five years of service. Loans are not permitted under the terms of the Savings Plan.

Employer contributions and employer-paid Savings Plan expenses totaled $2,744,035 in 1999 and $2,928,000 in 1998; employee contributions totaled $2,303,143 in 1999 and $2,099,000 in 1998.

Executive Benefits

The Hospital provides a supplemental executive retirement plan (SERP) as well as a contributory flexible benefit plan to certain key employees. Hospital contributions to the plan were $2,170,956 in 1999 and $2,507,000 in 1998. Assets and liabilities associated with the plan were $9,134,590 and $5,307,962 at December 31, 1999 and $8,067,000 and $5,165,000 at December 31, 1998, respectively, and are included in current assets and liabilities in the accompanying financial statements.

7. COMMITMENTS AND CONTINGENCIES:

During 1976, the State of Louisiana enacted legislation that created a statutory limit of $500,000 plus interest, costs and future medical expenses 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 Hospital participates in the State Insurance Fund, which provides up to $400,000 coverage for settlement amounts in excess of $100,000 per claim. The Hospital is self-insured with respect to the first $100,000 of each claim and has purchased additional coverage through a claims-made policy with a commercial insurance carrier for losses on claims in excess of $500,000. Any incident occurring prior to December 31, 1999 which is not asserted until after insurance coverage terminates, may result in a liability to the Hospital. Management intends to renew its existing malpractice insurance policies upon expiration and has no reason to believe that it will not be able to do so. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims, but believes any such claims, if asserted, would be settled within the limits of the Hospital's insurance coverage.

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 Hospital is currently in compliance with fraud and abuse as well as other applicable government laws and regulations. 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 Hospital. Federal healthcare reform legislation proposals debated in Congress in recent years have included the imposition of price controls and/or healthcare spending budgets or targets, 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 Hospital's principal payors. It is not possible at this time to determine the impact on the Hospital 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 Hospital in future years.

The Hospital has been named as a defendant in various legal actions arising from normal business activities in which damages in various amounts are claimed. The amount of ultimate liability, if any, with respect to such matters cannot be determined, but management believes that any such liability would not have a material effect on the Hospital's financial position.

The Hospital has numerous ongoing construction and equipment acquisition projects. The Hospital's capital budget for 2000 is approximately $22,500,000.

8. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 1999 and 1998 was as follows:

	1999	1998
Medicare	38.5%	39.1%
Medicaid	3.7	6.0
Managed Care	33.0	30.4
Other third-party payors	13.4	10.9
Patients	11.4	13.6
	100.0%	100.0%

9. SALE OF INTEREST IN HMO

On December 30, 1999, the Hospital sold the interest it previously held in an HMO. During 1999, the Hospital was required to make capital contributions totaling approximately $7.7 million to the HMO. Losses of approximately $10,500,000 were recognized separately in the non-operating gains (losses) section of the Statements of Revenues, Expenses and Fund Balance associated with the HMO investment in 1999. Management believes the Hospital has no remaining obligations relating to the HMO.

EAST JEFFERSON GENERAL HOSPITAL

REQUIRED SUPPLEMENTARY RETIREMENT PLAN INFORMATION
(Unaudited)

DECEMBER 31, 1999

Schedule of Funding Progress

Actuarial Valuation Date	1/1/00	1/1/99
Actuarial Value of Assets (AVA)	$ 28,726,916	$ 25,761,027
Actuarial Accrued Liability (AAL)	28,737,799	25,110,946
Excess of Assets over AAL (UAAL)	(10,883)	650,081
Funded Ratio	100.0%	102.6%
Annual Covered Payroll	86,303,775	77,079,097
UAAL as % of Payroll	0.0%	0.8%

ARTHUR ANDERSEN

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

The East Jefferson Hospital Board
Jefferson Parish Hospital Service District No. 2,
Jefferson Parish, Louisiana:

We have audited the financial statements of East Jefferson General Hospital (the Hospital – Jefferson Parish Hospital Service District No. 2, a component of Jefferson Parish, Louisiana) as of and for the year ended December 31, 1999, and have issued our report thereon dated February 25, 2000. We conducted our audit in accordance with generally accepted auditing standards 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 Hospital'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 the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but 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 Board of Directors and management, however, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

New Orleans, Louisiana,
February 25, 2000

Pd. Audis

ARTHUR ANDERSEN

EAST JEFFERSON GENERAL HOSPITAL

AUDIT REPORTS RELATED TO OMB CIRCULAR A-133
YEAR ENDED DECEMBER 31, 1999

EAST JEFFERSON GENERAL HOSPITAL

MOBILITY IMPAIRED TRANSPORTATION SERVICES PROGRAM

YEAR ENDED DECEMBER 31, 1999

CONTENTS

EAST JEFFERSON GENERAL HOSPITAL

MOBILITY IMPAIRED TRANSPORTATION SERVICES PROGRAM

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 1999

FINANCIAL STATEMENTS

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified	None
Reportable conditions identified	None
Noncompliance material to financial statements noted	None

FEDERAL AWARDS

Internal Control over major programs:	
Material weaknesses identified	None
Reportable conditions identified	None
Type of auditor's report issued on compliance for major programs	Unqualified
Audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)	None
Auditee qualified as low-risk auditee	Yes

ARTHUR ANDERSEN

REPORT OF INDEPENDENT AUDITORS ON THE SCHEDUEL OF

FEDERAL FINANCIAL ASSISTNACE AND COMPLIANCE

WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND

INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH

OMB CIRCULAR A-133

To the East Jefferson Hospital Board
Jefferson Parish Hospital Service District No. 2,
Parish of Jefferson, State of Louisiana:

We have audited the compliance of the East Jefferson General Hospital (the Hospital) Mobility Impaired Transportation Services Program (the Program) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement for the year ended December 31, 1999. Compliance with the requirements of laws, regulations, contracts and grants applicable to the Program is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

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

In our opinion, the Hospital complied, in all material respects, with the requirements referred to above that are applicable to the Program for the year ended December 31, 1999.

Internal Control Over Compliance

The management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with requirements that could have a direct and material effect on the Program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to the Program 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 compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of East Jefferson General Hospital (the Hospital) as of and for the year ended December 31, 1998, and have issued our report thereon dated March 5, 1999. Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the Hospital, taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the Hospital's general purpose financial statements. The information in this Schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

New Orleans, Louisiana,
February 25, 2000

EAST JEFFERSON GENERAL HOSPITAL

MOBILITY IMPAIRED TRANSPORTATION SERVICES PROGRAM

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

YEAR ENDED DECEMBER 31, 1999

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Grant Number	Federal Financial Assistance Expenditures
U. S. Department of Transportation- Federal Transit Administration/Regional Planning Commission, Jefferson Parish, Louisiana - Elderly and Handicapped Transit Service		LA90X187	$178,824
		LA90X199	$ 87,607

ARTHUR ANDERSEN

EAST JEFFERSON GENERAL HOSPITAL

MEMORANDUM ON ACCOUNTING PROCEDURES AND INTERNAL CONTROLS

DECEMBER 31, 1999

ARTHUR ANDERSEN

Arthur Andersen LLP

Suite 4500
201 St Charles Avenue
New Orleans LA 70170-4500

Tel 504 581 5454
Fax 504 582 1399

February 25, 2000

Board of Directors
Jefferson Parish Hospital Service District No. 2
Parish of Jefferson, State of Louisiana

As part of our audit of the financial statements of East Jefferson General Hospital (the Hospital) for the year ended December 31, 1999, we considered the Hospital's internal control structure in determining the scope of our audit procedures for the purpose of rendering an opinion on the financial statements. While our primary purpose in this engagement was not to provide assurances on the internal control structure, we noted certain matters that we want to bring to your attention. These matters are described in the accompanying memorandum.

This letter and the accompanying memorandum are intended solely for the use of management, the Board of Directors and the legislative auditor and are not intended for any other purpose.

We appreciate the courtesies and cooperation extended to our representatives during the course of their work. We would be pleased to discuss the recommendations included herein in greater detail or otherwise assist in their implementation at your convenience.

Very truly yours,

Arthur Andersen LLP

Segregation of Duties – Accounts Payable

The Hospital's accounts payable supervisor has authority over both payment of payables and the addition of new vendors. Vendor additions are approved and input by the supervisor without any additional review. To reduce the risk of unauthorized vendors being added to the payables system, we recommend a payables clerk input all new vendors, the supervisor review and approve all additions, and periodic additional review from either the accounting manager or internal audit.

Management Response:

Management accepts this recommendation and will immediately remove the authority of the Accounts Payable Supervisor for adding new vendors.

Construction in Progress

Transfers out of construction in progress were not consistently being performed on a timely basis upon the placement of an asset into service during 1999. Additionally, capitalized interest was not assigned to specific assets when transferred from construction in progress to the appropriate depreciable fixed asset category. During the monthly fixed asset reconciliation process, care should be taken that transfers are being properly recorded on a timely basis.

Management Response:

Management concurs with this comment and will see to it that timely transfers are being properly reported out of construction in progress to the depreciable fixed asset category.

Inventory

The Hospital's inventory balances increased significantly during 1999 due to the Hospital bringing the pharmacy function in-house. The internal audit department did not completed its reconciliation from the physical count of inventory to the general ledger as of December 31, 1999 on a timely basis. We recommend that the Hospital develop detailed procedures for not only the inventory counts but the subsequent reconciliation and book-to-physical adjustment so this process can be completed more efficiently.

Management Response:

Management concurs with the observation made in this comment. We will review our existing policies and ensure that the inventory departments are educated and aware of their responsibilities.

Receiving

We noted several discrepancies between goods actually received and the quantity of goods entered into the system as received. The hospital generally has sound procedures in place at the central receiving location, but that significant amounts of goods are being received at remote locations rather than the receiving department. We recommend that the Hospital follow the procedures already in place by receiving all shipments through the receiving department, then routing them to the appropriate locations.

Management Response:

Management acknowledges this recommendation and will comply with existing procedures and the intent of this comment.