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February 28, 1997

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, 1996, 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 and the Board of Directors and is 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

As East Jefferson migrates to new software applications, such as the new financial applications, we recommend that security features and functionality be closely reviewed. For new applications, end-users should have the capability and the responsibility for administering computer application security.

Management Response:
We agree with this observation. Currently security of EJGH information systems is administered by a security officer. An Information Systems team member is assigned to maintain security and audit profiled access for changing access requirements. (Reference IS Policy A-2 Automated Information Systems Security.) In an effort to segregate job duties, new applications are being assessed to be able to assign the security responsibility to end-users, and this has been accomplished in certain applications.

While security as related to the RISC 6000 and client server-based systems has been considered, and is a key objective for information systems, we do plan for implementation, as we change our system, and have made this a requirement in the criteria for selection.

As for the existing systems where IS staff members perform security administration, procedures have been established that require authorization from a department head or administrative line officer for access to computer systems.

Information Systems Access Controls

Information Systems (IS) staff members have the ability to read, copy, and modify clinical, operational, and financial information on the computer system(s). Also, formalized procedures have not been established to ensure that certain end-users are prevented from gaining access to the command prompt. This is particularly true within the AS/400 environment, which is used to process the HBOC Surgery module. The command prompt access allows individuals to potentially read, copy, and modify sensitive information. The ability to bypass normal application security increases the risk that operational and financially significant information may be compromised, either through deliberate or unintentional actions without user restrictions.

It is not unusual for IS departments to have unrestricted access to data contained on the computer system(s). However, minimal procedures should be considered to detect unusual access, such as:

- IS access to extremely sensitive data/applications, such as payroll and patient records; and IS access to extremely sensitive data/applications, such as payroll and patient records; and

- End-user access to command prompts.

In addition, while it may not be practical to restrict IS access to data on the computer systems, consideration should be given to using security management systems for the RISC 6000, ES 9000 and AS/400 logging features, so that access to sensitive data can be logged and reviewed for propriety.

> *Management Response:*
> We agree with the findings and plan to reevaluate the feasibility and costs of security management systems that would enhance the vendor provided logging security systems. In the interim, we plan to implement additional checks and balances to assist in detecting unusual access where information systems staff has access to extremely sensitive data/applications. We have implemented user restrictions to avoid unintentional and deliberate file manipulation of sensitive data for unauthorized users.

Information Systems Security Administration

Currently, selected IS staff members perform security administration for selected financial, clinical and operational applications. Traditionally, security administration functions for business applications are the role of end-user representatives to ensure that only those individuals requiring access to sensitive business computer functions actually have access to those functions. Allowing IS staff members the ability to administer security over financial/operational applications creates segregation of duties issues in that individuals responsible for maintaining computer programs can also grant access to those same computer applications. As a result, normal controls over computer security could be bypassed.

MD LLC Entities

In 1996, the Hospital along with the Foundation created a Limited Liability Corporation (LLC) as a vehicle to purchase physician practices. After the practices were purchased, the physician and his staff became employed by the Hospital. The medical corporations were converted to ordinary business corporations, were purchased by the LLC and are essentially inactive except for the collection of accounts receivable. Because these corporations are becoming inactive, the LLC should consider eliminating the corporate shells so as to eliminate any expenses or risks associated with maintaining an active corporation.

> *Management Response:*
> Management has planned the liquidation of these entities. However, due to IRS and legal considerations, they will be left active for a period of time. Liquidation is planned for 1997.

Materials Management Payable

The materials management system was recently modified so that the payables could be appropriately recorded in the general ledger immediately upon receipt of the goods. Materials management personnel are responsible for recording receipts in the payable account and the accounting personnel offset the payable when the corresponding checks are written. We understand that currently the system cannot be programmed to print a detail of the existing payables as of a given date, thus the general ledger has not been reconciled to such a detail on a monthly basis. Monthly reconciliation of the detail of this account to the control account is a key control to ensure that the payable account in the general ledger is properly stated, that there are no unusual or old items that may require adjustment in the account, and that payments for items have appropriately been recorded. We recommend that the materials management and accounting personnel develop a method for creating and maintaining such a detail on an ongoing basis, and that this detail be reconciled to the general ledger on a monthly basis.

> *Management Response:*
> Under the current software configurations our vendor SMS is unable to provide us with a detail ledger of the existing payables as of any given date. We are in the process of researching this with our vendor, along with other operations which are available to us. We do not feel that that a manual re-creation of these ledgers would be cost efficient and would have to balance the alternatives of purchasing new software and/or upgrading our existing software to produce this detail. Based on materiality we will look for a cost beneficial approach to addressing this concern.

Cash

East Jefferson Physician Network currently has 19 lock-box cash accounts operating. The numerous accounts were opened to simplify past problems believed to be associated with the reconciliation and posting of physician accounts receivable. Although the internal control risk associated with maintaining these accounts is limited due to the nature of these "deposit only" accounts, the costs resulting from employee reconciliations and bank service fees related to these numerous accounts could be reduced. Many of the past problems have been addressed and resolved by the recent adoption of revised policies and procedures for cash and accounts receivable reconciliations. Therefore, based on the progress that has been made from a control standpoint and the costs discussed above, management should reexamine the need for numerous bank accounts. We recommend that the Network investigate alternatives with its bank whereby all payments can be deposited to one account while maintaining proper identification of the payor and payee.

Management Response:
Management agrees that many of the control problems associated with cash and accounts receivable reconciliations have been resolved. Therefore, the Network will consider changes to the current practice in order to reduce the number of accounts while maintaining the advantages associated with many accounts.

Inventory

A physical inventory was performed at year end by the internal audit department. The physical inventory resulted in a book to physical adjustment of approximately $725,000. Management attributes the large adjustment to two factors. The first factor is involves the method by which some items are requisitioned. When an item is needed in an emergency or "stat" situation, the item may be taken without being properly relieved from inventory thus resulting in an overstatement of inventory records. The second factor results from limitations in the inventory system. If a requisition for an item is greater than the system indicates as being available, the system will not recognize the requisition at all, resulting in an overstatement of inventory. Management should implement procedures to address these issues. Accurate and timely expense data are imperative to focus emphasis on expense monitoring.

Management Response:
Management believes the problems that exist have been properly identified and plans to address these problems to reduce any future adjustments. Possible solutions include re-emphasis on the proper methods of requisitioning inventory items and an analysis of possible system adjustments that would reflect the proper totals relieved from inventory.

EAST JEFFERSON GENERAL HOSPITAL
IMPLEMENTATION OF PRIOR YEAR RECOMMENDATIONS
AS OF DECEMBER 31, 1996

	Implemented	Partially Implemented	Not Implemented
Monitoring of A/R with Credit Balances	X		
Material Management Payable			X (1)
Construction in Progress	X		
Additional Reviews			X (2)
Capitated Insurance Contracts	X		
EJPN Accounting Policies & Procedures		X	
EJPN Due to/From EJPN		X	
EJPN Cash Reconciliation		X	
EJPN Accounts Receivable		X	
EJPN Expenditures	X		

(1) See current year recommendations.

(2) The Hospital chose not to have additional reviews performed relating to information systems, benefit plan compliance and unrelated business income.

EAST JEFFERSON GENERAL HOSPITAL

HOSPITAL STATISTICS (UNAUDITED)

	Year Ended December 31 1996	1995
Ambulance runs (net)	12,981	14,551
Anesthesiology cases	12,753	12,079
Blood bank units of service	1,386,641	1,301,084
Cardiology:		
Cath lab procedures	6,985	5,998
Noninvasive procedures	48,407	44,701
Deliveries (newborn)	1,528	1,551
EEG tests	2,200	1,644
Emergency room visits	47,822	49,283
Endoscopy procedures	7,696	7,065
Laboratory units of service	5,904,124	5,952,371
Operations performed	12,749	12,207
Open heart operations	531	463
Physical therapy relative value units	113,997	90,415
Private outpatient registrations	70,648	71,409
Recovery room visits	8,092	7,893
Respiratory care units of service	397,963	353,493
Radiology:		
Diagnostic exams	80,271	79,640
CT scans	11,013	10,591
Nuclear medicine exams	6,370	6,057
Ultrasonic procedures	9,853	8,837
Special procedures	2,939	2,461
MRI procedures	4,835	4,038
Full-time equivalent employees	2,099	2,055

AUDITORS' REPORT ON COMPLIANCE OF

EAST JEFFERSON GENERAL HOSPITAL AS AN ENTITY

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), as of and for the year ended December 31, 1996, and have issued our report thereon dated February 28, 1997.

We conducted our audit in accordance with generally accepted auditing standards and 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.

Compliance with laws, regulations, contracts and grants applicable to the Hospital is the responsibility of Hospital management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Hospital's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions 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 herein under Government Auditing Standards.

This report is intended for the information of the Hospital's 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 28, 1997

AUDITORS' REPORT ON INTERNAL CONTROLS OF

EAST JEFFERSON GENERAL HOSPITAL

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) as of and for the year ended December 31, 1996, and have issued our report thereon dated February 28, 1997.

We conducted our audit in accordance with generally accepted auditing standards and 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.

Management of the Hospital is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Hospital for the year ended December 31, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 structure and its operation that we consider to be material weaknesses as defined above. We did note other matters involving the internal control structure and its operation that we have reported to the management of the Hospital in a separate letter dated February 28, 1997.

This report is intended for the information of the Hospital's 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 28, 1997

EAST JEFFERSON GENERAL HOSPITAL

MEMORANDUM ON ACCOUNTING PROCEDURES AND INTERNAL CONTROLS

DECEMBER 31, 1996

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, 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 ______________

ARTHUR ANDERSEN LLP

EAST JEFFERSON GENERAL HOSPITAL

AUDIT REPORTS RELATED TO OMB CIRCULAR A-128

YEAR ENDED DECEMBER 31, 1996

3. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment at December 31, 1996 and 1995 consists of:

	1996	1995
Land and land improvements	$ 12,660,167	$ 12,647,490
Buildings	78,875,509	77,820,106
Equipment	118,001,841	107,988,132
Construction in progress	52,138,877	17,497,912
Total	261,676,394	215,953,640
Less - accumulated depreciation and amortization	(115,363,385)	(102,550,777)
Property, plant and equipment, net	$ 146,313,009	$ 113,402,863

4. LONG-TERM DEBT:

Long-term debt at December 31, 1996 and 1995 consists of:

	1996	1995
Customized Purchase Hospital Revenue Bonds, Series 1985	$ 55,000,000	$ 55,000,000
Hospital Revenue Refunding Bonds, series 1986; 7.0% - 7.2%, due in installments to 1996	-	1,125,000
Hospital Revenue Refunding Bonds, Series 1993; 3.1% - 5.7%, due in installments to 2016	62,780,000	63,400,000
Note payable, collateralized by mortgage on land and medical clinic building	1,306,630	1,579,668
Total	119,086,630	121,104,668
Less: Current maturities	(2,147,360)	(2,016,963)
Total	$116,939,270	$119,087,705

In 1985, the District issued $55,000,000 in Customized Purchase Hospital Revenue Bonds, Series 1985 (the 1985 Bonds). 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. The Standby Bond Purchase Agreement is to expire on December 1, 1999, unless terminated or extended pursuant to its terms prior to that date.

EAST JEFFERSON GENERAL HOSPITAL

REQUIRED SUPPLEMENTARY RETIREMENT PLAN INFORMATION
(Unaudited)

DECEMBER 31, 1996

Supplementary historical trend information for the East Jefferson General Hospital Employees Pension Plan (the Plan) is presented below for all years in which this information is available. In analyzing these trends, *significant changes made in actuarial assumptions, benefit provisions and the actuarial funding method should be considered.*

	1997	1996(4)	1995	1994	1993	1992	1991	1990(2)	1989(1)
Net assets available for plan benefits	$19,753	$18,032	$14,952	$15,405	$13,911	$13,613	$11,487	$11,3[illegible]	[illegible]
Pension benefit obligation	22,603 (3)	18,300 (3)	17,320 (3)	15,157 (3)	11,657	9,941	8,388	7,20[illegible]	[illegible]
Net assets available as a percentage of the pension benefit obligation	87.4%	98.5%	86.3%	101.6%	119.3%	136.9%	136.9%	15[illegible]%	[illegible]
Assets in excess of (less than) pension benefit obligation	(2,850)	(268)	(2,368)	248	2,254	3,672	3,099	4,12[illegible]	[illegible]
Projected annual covered payroll	65,129	59,044	57,917	60,591	52,330	45,848	41,400	39,0[illegible]	[illegible]
Assets in excess of (less than) pension benefit obligation as a percentage of annual covered payroll	(4.4)%	(0.5)%	(4.1)%	0.4%	4.3%	8.0%	7.5%	10.6%	[illegible]

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligations and assets in excess of pension benefit obligation without additional information may be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides an indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Trends in assets in excess of (less than) pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the assets in excess of pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids in the analysis of the Plan's progress made in accumulating sufficient assets to pay benefits when due.

(1) Effective January 1, 1989, the Plan was amended and restated, resulting in changes in benefit provision, and actuarial assumptions and methodologies.
(2) Effective January 1, 1990, the interest rate assumption was changed from 7% to 8%.
(3) Reflects the effect of project salary increases.
(4) Effective January 1, 1996, the interest rate assumption was changed from 8% to 8.5%, and the salary scale assumption was changed from 6% per annum to 5% per annum.

The Hospital derives a significant amount (approximately 45% in 1996 and 45% in 1995) of its net patient service revenue from patients covered by the Medicare and Medicaid programs.

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 $3,110,000 in 1996 and $3,381,000 in 1995.

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 $563,349 in 1996 and $537,096 during 1995 to the Parish to fund a medical facility at the Parish prison. These transfers have been recorded as transfers out of fund balance in the Hospital's financial statements.

Gifts, Grants and Bequests

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

Reclassifications

Certain reclassifications have been made to previously reported 1995 balances to conform to the current year presentation.

2. CASH AND INVESTMENTS:

The Hospital's cash, cash equivalents and investment balances at December 31, 1996 and 1995 consist of the following:

	1996	1995
Cash and repurchase agreements	$ 3,792,314	$ 7,310,178
Money market accounts	3,539,658	8,516,847
Total cash and cash equivalents	7,331,972	15,827,025
U. S. Government obligations	221,167,005	214,376,931
Certificates of deposit (with maturities of more than three months when purchased)	125,000	125,000
Accrued interest receivable	866,876	1,721,640
	$229,490,853	$232,050,596
Fair market value	$229,811,779	$238,155,675

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

	1996	1995
Current assets:		
Cash and cash equivalents	$ 2,198,902	$ 5,790,661
Short-term investments	92,482,633	90,123,243
Assets whose use is limited	134,835,202	136,162,576
Less: Due from Jefferson Parish	(25,884)	(25,884)
	$229,490,853	$232,050,596

Louisiana state statutes authorize the Hospital to invest in direct obligations of the U. S. Government, certificates of deposit of state banks and national banks having their principal office in the state of Louisiana, Federally insured investments, guaranteed investment contracts issued by financial institutions having one of the two highest rating categories published by Standard & Poor's or Moody's, and mutual or trust funds registered with the Securities and Exchange Commission (provided the underlying investments of these funds meet certain restrictions). 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, 1996 and 1995 were fully 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 (a) 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 (b) 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 (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 Hospital's name. Balances at December 31, 1996 were as follows:

	Credit Risk Category			Carrying	Market
	(a)	(b)	(c)	Amount	Value
Securities Type:					
U.S. Government obligations	$159,266,183	$61,900,822	$ -	$221,167,005	$221,487,931
Cash and cash equivalents, certificates of deposit and accrued interest receivable	8,323,848	-	-	8,323,848	8,323,848
Total investments	$167,590,031	$61,900,822	$ -	$229,490,853	$229,811,779

In 1986, the District issued $57,975,000 in Hospital Revenue Refunding Bonds, Series 1986 (the 1986 Bonds), primarily to refund the 1985 Bonds in a crossover refunding transaction. In 1996, the Hospital made a final payment to extinguish the debt associated with the 1986 Bonds.

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 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.

The 1985 and 1993 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:

1997	$ 2,147,361
1998	2,249,287
1999	2,362,859
2000	2,487,123
2001	2,230,000
Thereafter	52,610,000
	64,086,630
Funded at December 31, 1996	55,000,000
Total debt	$ 119,086,630

The District had 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, $6,130,000 were outstanding at December 31, 1996 and 1995.

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 $770,000 annually during 1996 and 1995. 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 a second ground lease to a developer, for the development, construction and operation of a parking garage, and a physician office building, respectively. The developer of the physician office building is a limited partnership composed of a 5% general partner, medical staff physicians who are tenants in the building, and limited partners. The improvements constructed on the leased land are to revert to the Hospital without cost upon termination of the leases. 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 $2,699,000 at December 31, 1996 and $2,421,000 at December 31, 1995. 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, 1996 on capitalized leases are as follows:

	Capitalized Leases
1997	$ 1,927,186
1998	1,943,506
1999	1,939,874
2000	1,945,305
2001	1,906,746
Thereafter	27,935,517
Total minimum lease payments	37,598,134
Less amount representing executory costs (i.e., operating expenses) included in total minimum lease payments	(8,915,942)
Net minimum lease payments	28,682,192
Less amount representing interest	(15,599,544)
Present value of net minimum lease payments (including $315,069 classified as a current liability)	$ 13,082,648

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, 1996 was $5,381,000 and the Hospital is to receive minimum future rentals of approximately $410,000 per year (aggregating $18,040,000) on this lease. The building portion of the net investment in direct financing leases is summarized below:

	1996	1995
Total minimum lease payments to be received	$ 25,985,310	$ 25,985,310
Less unearned income	(17,511,617)	(17,715,120)
Net investment in directing financing lease	$ 8,473,693	$ 8,270,190

Annual lease payments to be received on the rental of the building for each of the next five years total $1,981,000.

Operating Leases

The Hospital leases certain equipment and office space under operating leases primarily on a month-to-month basis.

6. BENEFIT PLANS:

Description of Pension Plan

The Hospital contributes to the Retirement Plan for Employees of East Jefferson General Hospital (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, 1996 the Hospital's total payroll for all employees was approximately $78,375,000 and the Hospital's total covered payroll (for pension plan participants) was approximately $65,129,000. 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.

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 benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted beginning January 1, 1996 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 1996 and 1995 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. The pension benefit obligation determined by actuaries for the Plan as of January 1, 1997 and 1996, was as follows:

	1996	1995
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	$ 7,854,371	$ 6,885,156
Current employees-		
Vested	10,414,798	9,360,512
Nonvested	1,311,814	923,231
Total vested and nonvested accumulated plan benefits	19,580,983	17,168,899
Effect of projected salary increases	3,022,145	1,131,212
Total pension benefit obligation	22,603,128	18,300,111
Net assets available for benefits, at contract value	19,753,066	18,032,105
Assets in excess of (less than) pension benefit obligation	$(2,850,062)	$ (268,006)

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 $316,000 in 1996 (none in 1995) and is fully funded according to Internal Revenue Service funding limitations. A total of $6,290,000 has been accrued as a pension liability through December 31, 1996. 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:

	1997	1996	1995
Net assets available for benefits as a percentage of the pension benefit obligation	87.4%	98.5%	86.3%
Assets in excess of (less than) pension benefit obligation as a percentage of the Hospital's annual covered payroll	(4.4)%	(.5)%	(4.1)%
Hospital contributions to the pension plan as a percentage of annual covered payroll	0%	0%	0%

EAST JEFFERSON GENERAL HOSPITAL

OTHER REVENUE AND PROVISION FOR CONTRACTUAL ALLOWANCES

	Year Ended December 31 1996	1995
OTHER REVENUE:		
Cafeteria	$ 1,236,703	$ 1,164,185
Educational fees	9,645	27,582
Special meals	455,390	92,718
Vending machines	135,545	108,632
Telephone	2,175	4,317
Medical record abstract	14,705	10,644
Elder advantage fees	30,045	34,056
Central supply	9,519	7,990
Miscellaneous	293,613	113,400
	$ 2,187,340	$ 1,563,524
PROVISION FOR CONTRACTUAL ALLOWANCES:		
Medicare contractual adjustments	$ 113,402,182	$ 101,670,323
Medicaid contractual adjustments	10,845,489	8,566,141
Managed care discounts	47,446,821	39,770,993
Obstetric package discounts	419,232	694,204
	$ 172,113,724	$ 150,701,661

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. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. 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 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.

The Hospital, together with certain other healthcare entities, has an ownership interest in the Southeast Medical Alliance (SMA), a preferred provider health care organization. The Hospital and SMA have been sued by Doctor's Hospital of Jefferson, Inc. (Doctors) who is challenging its termination as a participating hospital in SMA. Doctors alleges that defendants, SMA and the Hospital, engaged in anticompetitive conduct by conspiring to eliminate Doctors from SMA. Doctors also asserts claims of monopolization and attempted monopolization against the Hospital, as well as various related Louisiana state law causes of action. Doctors seeks injunctive relief and damages pursuant to Federal and state antitrust laws, and other state laws and has advanced two, alternative, measures of damages, one in the amount of $6.8 million, the other in the amount of $3.4 million. Doctors further claims that Federal and state antitrust laws allow for the trebling of its damage award and for recovery of its attorney fees incurred in prosecuting its claim, if it is successful. The Hospital has denied Doctors' allegations of liability and damage claim and intends to vigorously defend the matter since it believes it should have no liability in this case. On April 25, 1995, the United States District Court found the Hospital and SMA to be entitled to a favorable summary judgment of the Federal and state antitrust claims made by Doctors; however, certain state antitrust law claims made by Doctors are expected to be pursued on appeal by Doctors.

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 1997 is approximately $36,000,000.

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	30 years
Buildings	20 years
Fixed equipment	15 years
Major movable equipment	10 years
Minor equipment	20 years

Interest capitalized on construction, $1,481,000 in 1996 and $803,000 in 1995, 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 to remain outstanding using the interest method.

Other Assets

Other assets consists primarily of the Hospital's investment in a Health Maintenance Organization (HMO) which is accounted for under the equity method of accounting.

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 in future periods as final settlements are determined. Government health care program receivables include settlements for 1991 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 settlement for the years for which the intermediary has not determined final settlements. Payment arrangements with major third-party payors are summarized below:

- Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge which vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services, certain outpatient services and defined capital costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is paid for 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 Medicare fiscal intermediary.

- Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a per diem methodology which is not subject to retroactive settlement.

- Commercial Insurance - The Hospital has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations which include payments based on prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates, and per member per month rates.

REPORT OF INDEPENDENT AUDITORS ON OTHER FINANCIAL INFORMATION

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

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The following other financial information, as listed on the contents page, is presented for purposes of additional analysis and is not a required part of the financial statements of the Hospital. Such information, except for the pages marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in our audits of the financial statements taken as a whole.

Arthur Andersen LLP

New Orleans, Louisiana,
February 28, 1997

EAST JEFFERSON GENERAL HOSPITAL

PATIENT SERVICE CHARGES BY DEPARTMENT

	Year Ended December 31, 1996		
	Inpatient	Outpatient	Total
ROUTINE SERVICES:			
Medical and surgical	$ 29,172,608	$ 2,649,980	$ 31,822,588
Intensive care	9,207,987	-	9,207,987
Coronary care	3,103,907	-	3,103,907
Psychiatric care	4,473,035	107,658	4,580,693
Nursery	2,878,690	-	2,878,690
Obstetrics	2,275,520	51,022	2,326,542
Rehabilitation	7,523,066	3,297,880	10,820,946
Skilled nursing facility	7,734,771	-	7,734,771
ANCILLARY SERVICES:			
Ambulance	1,223,063	3,516,353	4,739,416
Anesthesiology	6,776,307	5,179,261	11,955,568
Blood bank	4,747,806	816,528	5,564,334
Cardiology	19,742,887	6,690,403	26,433,290
Central supply	16,564,386	2,949,362	19,513,748
Dialysis	1,281,097	-	1,281,097
Electoencephalography	259,529	196,744	456,273
Emergency services	4,410,403	9,579,565	13,989,968
Endoscopy	1,168,265	3,165,935	4,334,200
Home health	-	2,102,247	2,102,247
Labor and delivery	3,680,718	780,237	4,460,955
Laboratory	21,304,404	6,994,507	28,298,911
Magnetic resonance imaging	1,071,244	3,396,840	4,468,084
Nuclear medicine	1,101,041	2,018,423	3,119,464
One day stay	-	2,258,870	2,258,870
Operating and recovery	33,974,267	15,985,773	49,960,040
Outpatient rehabilitation	-	-	-
Outpatient screening	65,219	-	65,219
Pharmacy and I.V. solution	46,691,330	7,258,979	53,950,309
Physical therapy	4,682,466	336,040	5,018,506
Physician network revenue	-	11,142,803	11,142,803
Radiation therapy	673,129	5,369,911	6,043,040
Radiology	12,254,633	12,980,633	25,235,266
Respiratory care	18,624,783	1,733,683	20,358,466
Wound care center	3,315	1,113,278	1,116,593
	$266,669,876	$111,672,915	378,342,791
PROVISION FOR CONTRACTUAL ALLOWANCES			(172,113,724)
UNCOMPENSATED CARE			(3,109,765)
NET PATIENT SERVICE REVENUE			$ 203,119,302

EAST JEFFERSON GENERAL HOSPITAL

BALANCE SHEETS

DECEMBER 31, 1996 AND 1995

ASSETS

	1996	1995
CURRENT ASSETS:		
Cash and cash equivalents (Note 1)	$ 2,198,902	$ 5,790,661
Short-term investments	92,482,633	90,123,243
Patient accounts receivable, less allowance for uncollectible accounts (1996 - $18,388,171; 1995 - $16,275,593)	31,078,923	30,655,469
Assets whose use is limited and required for current liabilities	4,468,590	4,285,427
Other receivables	3,830,972	3,028,118
Inventories (Note 1)	2,181,727	2,221,989
Prepaid expenses	4,145,785	3,066,390
Total current assets	140,387,532	139,171,297
ASSETS WHOSE USE IS LIMITED including cash, cash equivalents and investments (Note 2):		
Under 1985, 1986 and 1993 bond ordinances	7,919,301	8,658,961
By Board for specific purposes	126,915,901	127,503,615
Total assets whose use is limited	134,835,202	136,162,576
Less assets whose use is limited and required for current liabilities	(4,468,590)	(4,285,427)
Noncurrent assets whose use is limited	130,366,612	131,877,149
PROPERTY, PLANT AND EQUIPMENT, net (Note 3)	146,313,009	113,402,863
OTHER ASSETS:		
Net investment in direct financing leases (Note 5)	8,473,693	8,270,190
Unamortized debt issuance costs	3,201,764	3,597,601
Other (Note 1)	9,418,120	6,258,131
	21,093,577	18,125,922
	$438,160,730	$402,577,231

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

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, 1996 and 1995, and the related statements of revenue, 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. 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, 1996 and 1995, 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 internal control structure, and a report on its compliance with laws and regulations, both dated February 28, 1997.

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 measurement 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 28, 1997

EAST JEFFERSON GENERAL HOSPITAL

FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

YEARS ENDED DECEMBER 31, 1996 AND 1995

ARTHUR ANDERSEN LLP

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EAST JEFFERSON GENERAL HOSPITAL

FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

YEARS ENDED DECEMBER 31, 1996 AND 1995 WITH REPORT OF INDEPENDENT AUDITORS

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, 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 MAY 28 1997

Employee Savings Plan

Effective September 15, 1989, the Hospital adopted the East Jefferson General Hospital Savings Plan (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 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 Plan. Plan participants may elect to make after-tax contributions (After-Tax Deposits) up to a maximum of 6% of their Plan Compensation, as defined in the Plan Agreement. The Plan Agreement provides that the Hospital contribute 2% of participants' Plan Compensation each year (Hospital Basic Deposits) and match participant contributions up to 2% of the participants' Plan Compensation (Hospital Matching Deposits).

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 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 Plan.

For the year ended December 31, 1996, the Hospital's total payroll for all employees was approximately $78,375,000 and the Hospital's total covered payroll (for savings plan participants) was approximately $73,255,000. Employer contributions and employer-paid Plan expenses totaled $2,557,000 in 1996 and $2,183,000 in 1995; employee contributions totaled $1,524,000 in 1996 and $1,254,000 in 1995.

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 $2,525,000 in 1996 and $1,448,000 in 1995. Assets and liabilities associated with the plan were $5,046,000 and $3,946,000 at December 31, 1996 and $3,013,000 and $2,399,000 at December 31, 1995, 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 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, 1996, 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.

EAST JEFFERSON GENERAL HOSPITAL

SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT

	Assets			
	January 1, 1996	Additions	Transfers and Disposals	December 31, 1996
Land	$ 9,801,678	$ -	$ -	$ 9,801,678
Land improvements	2,845,812	12,677	-	2,858,489
Buildings	77,820,106	1,055,403	-	78,875,509
Fixed equipment	54,821,249	2,729,388	723,402	58,274,039
Major movable equipment	51,082,225	7,685,405	(1,177,661)	57,589,969
Minor equipment	2,084,658	53,297	(122)	2,137,833
Construction in progress	17,497,912	35,064,777	(423,812)	52,138,877
	$215,953,640	$46,600,947	$ (878,193)	$261,676,394

	Accumulated Depreciation and Amortization			
	January 1, 1996	Additions	Transfers and Disposals	December 31, 1996
Land	$ -	$ -	$ -	$ -
Land improvements	2,255,078	87,175	-	2,342,253
Buildings	31,082,371	3,807,677	-	34,890,048
Fixed equipment	39,055,225	4,017,672	(321,846)	42,751,051
Major movable equipment	28,365,259	5,644,625	(559,229)	33,450,655
Minor equipment	1,792,844	136,656	(122)	1,929,378
Construction in progress	-	-	-	-
	$102,550,777	$13,693,805	$ (881,197)	$115,363,385

ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY

INFORMATION - SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

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

We have audited the general purpose financial statements of East Jefferson General Hospital (the Hospital) as of and for the year ended December 31, 1996, and have issued our report thereon dated February 28, 1997. The general purpose financial statements and the Schedule referred to below are the responsibility of the Hospital's management. Our responsibility is to express an opinion on the general purpose financial statements and the Schedule referred to below based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 audit provides a reasonable basis for our opinion.

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.

Arthur Andersen LLP

New Orleans, Louisiana,
March 28, 1997

EAST JEFFERSON GENERAL HOSPITAL

MOBILITY IMPAIRED TRANSPORTATION SERVICES PROGRAM

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

YEAR ENDED DECEMBER 31, 1996

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	20.507	LA90x152	$ - *

*No Federal financial assistance was received under this grant in 1996, however the grant has not expired.

REPORT OF INDEPENDENT AUDITORS ON THE INTERNAL CONTROL STRUCTURE

USED IN ADMINISTERING FEDERAL FINANCIAL ASSISTANCE PROGRAMS

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

We have audited the general purpose financial statements of East Jefferson General Hospital (the Hospital) as of and for the year ended December 31, 1996, and have issued our report thereon dated February 28, 1997.

We conducted our audit in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

In planning and performing our audit for the year ended December 31, 1996, we considered the internal control structure of the Hospital in order to determine our auditing procedures for the purpose of expressing our opinion on the Hospital's general purpose financial statements and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to Federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated February 28, 1997.

Management of the Hospital is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

Internal Accounting Controls

- Cash receipts
- Cash disbursements
- Payroll

Administrative Controls

General Requirements:

- *Political activity*
- Civil rights
- Cash management
- Allowable costs/cost principles

Specific Requirements:

- Types of services
- Eligibility
- Matching, level of effort or earmarking
- Reporting

Claims for Advances and Reimbursements

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended December 31, 1996, the Hospital had no major federal financial assistance programs and expended 100% of its total federal financial assistance under the East Jefferson General Hospital Mobility Impaired Transportation Services Program, which is a nonmajor federal financial assistance program.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to the East Jefferson General Hospital Mobility Impaired Transportation Services Program. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures and, accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance 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 structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of the board, management, Jefferson Parish, Louisiana, and the United States Department of Transportation. However, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

New Orleans, Louisiana,
March 28, 1997

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO NONMAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAM TRANSACTIONS

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

We have audited the general purpose financial statements of East Jefferson General Hospital (the Hospital) as of and for the year ended December 31, 1996, and have issued our report thereon dated February 28, 1997.

In connection with our audit of the 1996 general purpose financial statements of the Hospital and with our consideration of the Hospital's control structure used to administer federal financial assistance programs, as required by the Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments, we selected certain transactions applicable to the East Jefferson General Hospital Mobility Impaired Transportation Services Program (nonmajor Federal program) for the year ended December 31, 1996 to, as required by OMB Circular A-128, test compliance with the requirements governing (1) types of services allowed or unallowed; (2) eligibility; (3) matching, level of effort or earmarking; (4) reporting; (5) special tests and provisions; and (6) claims for advances and reimbursements that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Hospital's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Hospital had not complied, in all material respects, with those requirements.

This report is intended for the information of the board, management, Jefferson Parish, Louisiana, and the United States Department of Transportation. However, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

New Orleans, Louisiana,
March 28, 1997

EAST JEFFERSON GENERAL HOSPITAL

HOSPITAL STATISTICS (UNAUDITED)

	Year Ended December 31 1996	1995
Admissions - total	19,367	18,610
Inpatients (excluding nursery)	17,845	17,061
Nursery - newborn and neonatal	1,522	1,549
Patient days of service - total	115,844	114,534
Inpatients (excluding nursery)	111,650	110,406
Nursery - neonatal	1,691	1,542
Nursery - newborn	2,503	2,586
Special care units days of service (included in inpatient days of service above):		
Psychiatric unit	6,846	6,980
Rehabilitation unit	9,682	9,234
Skilled nursing facility unit	18,987	10,711
Average daily census	316.5	313.8
Inpatients (excluding nursery)	305.1	302.5
Nursery - neonatal	4.6	4.2
Nursery - newborn	6.8	7.1
Percentage of occupancy:		
Inpatients (excluding nursery)	68.2%	69.5%
Medicare percentage of total patient days	64.6%	62.8%
Average length of stay (days):		
Inpatients (excluding nursery)	6.3	6.5
Nursery - newborn and neonatal	2.8	2.7
Psychiatric unit	7.3	7.6
Rehabilitation unit	20.0	20.8
Skilled nursing facility unit	14.0	16.9

EAST JEFFERSON GENERAL HOSPITAL

PATIENT SERVICE CHARGES BY DEPARTMENT

	Year Ended December 31, 1995		
	Inpatient	Outpatient	Total
ROUTINE SERVICES:			
Medical and surgical	$ 31,602,714	$ 2,625,803	$ 34,228,517
Intensive care	8,407,458	-	8,407,458
Coronary care	3,512,860	-	3,512,860
Psychiatric care	4,148,313	102,316	4,250,629
Nursery	2,649,372	-	2,649,372
Obstetrics	2,141,852	49,625	2,191,477
Rehabilitation	7,135,350	-	7,135,350
Skilled nursing facility	4,137,823	-	4,137,823
	63,735,742	2,777,744	66,513,486
ANCILLARY SERVICES:			
Ambulance	1,193,151	3,576,995	4,770,146
Anesthesiology	6,068,676	4,300,415	10,369,091
Blood bank	4,115,368	683,502	4,798,870
Cardiology	18,162,157	5,218,592	23,380,749
Central supply	16,160,180	2,185,466	18,345,646
Dialysis	1,636,730	-	1,636,730
Electoencephalography	276,218	210,311	486,529
Emergency services	3,963,139	9,261,458	13,224,597
Endoscopy	1,150,810	2,876,740	4,027,550
Home health	-	901,092	901,092
Labor and delivery	3,487,951	699,854	4,187,805
Laboratory	20,654,047	7,656,883	28,310,930
Magnetic resonance imaging	940,722	2,956,506	3,897,228
Nuclear medicine	1,171,186	1,752,893	2,924,079
One day stay	-	1,900,131	1,900,131
Operating and recovery	30,943,758	13,682,386	44,626,144
Outpatient rehabilitation	-	2,727,750	2,727,750
Outpatient screening	-	32,473	32,473
Pharmacy and I.V. solution	45,564,735	5,712,601	51,277,336
Physical therapy	3,025,993	242,409	3,268,402
Physician network revenue	-	5,654,760	5,654,760
Radiation therapy	588,081	5,461,237	6,049,318
Radiology	11,466,359	11,787,129	23,253,488
Respiratory care	16,066,554	1,749,037	17,815,591
Wound care center	2,059	947,406	949,465
	$ 250,373,616	$ 94,955,770	345,329,386
PROVISION FOR CONTRACTUAL ALLOWANCES			(150,701,661)
UNCOMPENSATED CARE			(3,380,882)
NET PATIENT SERVICE REVENUE			$ 191,246,843

EAST JEFFERSON GENERAL HOSPITAL

MOBILITY IMPAIRED TRANSPORTATION SERVICES PROGRAM

STATEMENT OF FARE REVENUE

RECEIVED AND OPERATING COSTS PAID

YEAR ENDED DECEMBER 31, 1996

CONTENTS

EAST JEFFERSON GENERAL HOSPITAL

DEPARTMENTAL EXPENSES

	Year Ended December 31, 1996				Year Ended December 31, 1995			
	Salaries, Wages and Benefits	Supplies	Purchased Services and Other Expenses	Total	Salaries, Wages and Benefits	Supplies	Purchased Services and Other Expenses	Total
GENERAL SERVICE:								
Dietary and cafeteria	$ 1,922,333	$ 1,853,327	$ 150,740	$ 3,926,400	$ 1,881,066	$ 1,698,142	$ 157,346	$ 3,736,554
Housekeeping	1,570,363	324,788	159,007	2,054,158	1,530,368	311,259	158,642	2,000,269
Laundry	71,177	294,677	757,682	1,123,536	66,562	414,361	732,745	1,213,668
Plant engineering and security	2,526,365	480,769	627,168	3,634,302	2,285,119	530,051	649,334	3,464,504
Utilities	-	-	2,071,752	2,071,752	-	-	1,744,294	1,744,294
	$ 6,090,238	$ 2,953,561	$ 3,766,349	$ 12,810,148	$ 5,763,115	$ 2,953,813	$ 3,442,361	$ 12,159,289
FISCAL AND ADMINISTRATIVE SERVICE:								
Accounting	$ 346,988	$ 9,360	$ 14,901	$ 371,249	$ 401,788	$ 7,554	$ 8,871	$ 418,213
Administration	6,010,749	226,298	2,934,684	9,171,731	5,066,412	94,455	2,634,244	7,795,111
Information systems	1,617,455	218,949	2,353,604	4,190,008	1,439,149	196,832	2,493,513	4,129,494
Education	223,675	31,943	78,882	334,500	209,454	33,767	99,016	342,237
Employee benefits	15,912,327	-	-	15,912,327	17,273,198	-	-	17,273,198
Financial support services	249,594	1,484	8,194	259,272	236,443	1,378	8,136	245,957
Insurance	-	-	2,856,903	2,856,903	-	-	2,739,954	2,739,954
Medical records	1,321,581	57,776	715,570	2,094,927	1,348,768	50,507	556,903	1,956,178
Miscellaneous	-	-	1,070,577	1,070,577	-	-	429,649	429,649
Patient accounts	2,146,433	120,517	68,112	2,335,062	2,080,547	122,389	91,642	2,294,578
Personnel	545,047	71,980	325,324	942,351	470,170	53,731	190,778	714,679
Physician's network	9,570,774	541,645	3,099,901	13,212,320	5,405,330	432,549	1,445,718	7,283,597
Printing and duplication	52,423	62,457	397,649	512,529	51,511	62,405	411,293	525,209
Professional fees	-	-	811,164	811,164	-	-	1,658,674	1,658,674
Communications and community affairs	380,210	35,441	665,854	1,081,505	280,602	14,262	656,083	950,947
Purchasing	299,358	4,351	20,310	324,019	275,678	5,451	(21,740)	259,389
Social services	337,061	3,815	2,619	343,495	324,502	3,696	5,252	333,450
Telephone service	314,404	14,199	493,737	822,340	279,732	11,748	445,364	736,844
Volunteer services	102,640	16,814	52,545	171,999	134,364	12,520	46,963	193,847
	39,430,719	1,417,029	15,970,530	56,818,278	35,277,648	1,103,244	13,900,313	50,281,205
Total expenses	$95,399,323	$25,875,674	$43,914,740	$165,189,937	$90,909,206	$25,198,503	$40,787,862	$156,895,571

EAST JEFFERSON GENERAL HOSPITAL

DEPARTMENTAL EXPENSES

	Year Ended December 31, 1996				Year Ended December 31, 1995			
	Salaries, Wages and Benefits	Supplies	Purchased Services and Other Expenses	Total	Salaries, Wages and Benefits	Supplies	Purchased Services and Other Expenses	Total
ROUTINE SERVICES:								
Medical and surgical	$12,010,385	$ 501,486	$ 81,715	$12,593,586	$13,513,612	$ 473,282	$ 8,178	$13,995,072
Intensive care	4,058,613	163,534	10,295	4,232,442	3,640,167	156,773	16,568	3,813,508
Coronary care	1,089,582	38,153	6,053	1,133,788	1,175,997	36,461	9,347	1,221,805
Psychiatric care	1,017,700	17,533	105,642	1,140,875	997,253	19,074	110,158	1,126,485
Nursery	1,530,445	108,538	25,670	1,664,653	1,261,466	89,243	73,409	1,424,118
Nursing administration	102,862	4,454	14,219	121,535	201,656	4,295	14,654	220,605
Obstetrics	873,690	21,480	5,527	900,697	877,678	17,281	5,424	900,383
Rehabilitation	1,176,767	73,267	3,672,399	4,922,433	1,165,625	59,896	2,207,711	3,433,232
Skilled nursing facility	2,098,876	92,817	14,771	2,206,464	1,352,598	53,943	12,278	1,418,819
	$23,958,920	$ 1,021,262	$ 3,936,291	$28,916,473	$24,186,052	$ 910,248	$ 2,457,727	$27,554,027
ANCILLARY SERVICES								
Ambulance	$ 1,945,832	$ 150,089	$ 28,759	$ 2,124,680	$ 1,929,590	$ 172,420	$ 85,554	$ 2,187,564
Anesthesiology	61,677	642,500	24,404	728,581	60,076	632,677	26,224	718,977
Blood bank	557,638	1,071,028	156,243	1,784,909	526,293	890,695	197,610	1,614,598
Cardiology	2,472,944	3,941,966	307,673	6,722,583	2,365,023	4,215,055	176,580	6,756,658
Central supply	431,151	2,847,226	471,646	3,750,023	423,659	2,490,078	525,475	3,439,212
Dialysis	-	1,937	437,595	439,532	-	1,182	521,924	523,106
Electoencephalography	76,051	15,936	14,761	106,748	80,795	17,154	24,513	122,462
Emergency services	3,515,810	316,749	3,665,356	7,497,915	3,843,365	297,303	3,665,315	7,805,983
Endoscopy	343,800	269,760	74,562	688,122	300,737	241,495	71,088	613,320
Home health	641,968	238,273	893,889	1,774,130	454,604	106,080	106,604	667,288
Labor and delivery	916,350	190,309	7,374	1,114,033	894,106	175,470	7,205	1,076,781
Laboratory	2,642,538	1,254,684	690,399	4,587,621	2,613,190	1,066,142	1,817,422	5,496,754
Magnetic resonance imaging	237,007	196,802	308,073	741,882	228,672	230,983	548,350	1,008,005
Nuclear medicine	266,588	434,765	43,917	745,270	256,551	345,683	81,582	683,816
One day stay	545,732	17,874	5,786	569,392	562,445	16,574	7,152	586,171
Operating and recovery	3,363,918	6,620,177	1,062,942	11,047,037	3,393,319	6,708,317	850,903	10,952,539
Outpatient rehabilitation	-	-	-	-	57,857	28,812	1,159,685	1,246,354
Outpatient screening	-	-	-	-	101,419	13,356	(64,784)	49,991
Pharmacy and I.V. solution	-	(483)	10,323,616	10,323,133	(10,668)	9,459	9,743,610	9,742,401
Physical therapy	1,264,594	89,137	27,922	1,381,653	1,045,333	62,093	20,648	1,128,074
Radiation therapy	663,430	106,453	295,867	1,065,750	677,367	94,813	273,482	1,045,662
Radiology	2,297,630	1,172,305	740,051	4,209,986	2,369,705	1,352,713	694,698	4,417,116
Respiratory care	3,478,316	640,922	109,658	4,228,896	3,310,856	662,331	181,610	4,154,797
Wound care center	196,472	265,613	551,077	1,013,162	198,097	400,313	265,011	863,421
	$25,919,446	$20,484,022	$20,241,570	$66,645,038	$25,682,391	$20,231,198	$20,987,461	$66,901,050

EAST JEFFERSON GENERAL HOSPITAL

BALANCE SHEETS

DECEMBER 31, 1996 AND 1995

LIABILITIES AND FUND BALANCE

	1996	1995
CURRENT LIABILITIES:		
Trade accounts payable	$ 16,885,416	$ 11,267,893
Amounts due to contractual third-party payors	1,580,449	1,357,769
Accrued interest	2,006,161	2,110,060
Other accrued expenses	15,824,930	11,711,286
Current portion of capital lease obligation	315,069	158,404
Current portion of long-term debt	2,147,360	2,016,963
Total current liabilities	38,759,385	28,622,375
ACCRUED PENSION LIABILITY	6,289,961	4,955,902
CAPITAL LEASE OBLIGATION, less current portion (Note 5)	12,767,579	12,356,130
LONG-TERM DEBT, less current portion (Note 4)	116,939,270	119,087,705
CONTINGENCIES (Note 7)		
FUND BALANCE	263,404,535	237,555,119
	$438,160,730	$402,577,231

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

EAST JEFFERSON GENERAL HOSPITAL

STATEMENTS OF REVENUE, EXPENSES AND FUND BALANCE

FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995

	1996	1995
OPERATING REVENUES:		
Net patient service revenue	$203,119,302	$191,246,843
Other	2,187,340	1,563,524
Total operating revenues	205,306,642	192,810,367
OPERATING EXPENSES:		
Salaries, wages and benefits	95,399,323	90,909,206
Purchased services and other	43,914,740	40,787,862
Supplies	25,875,874	25,198,503
Provision for bad debts	10,043,700	12,119,478
Depreciation and amortization	14,255,149	13,674,968
Interest expense, net of interest income from bond fund investments of $1,927,361 in 1996 and $2,239,143 in 1995	3,790,151	4,181,778
Total operating expenses	193,278,937	186,871,795
INCOME FROM OPERATIONS	12,027,705	5,938,572
NON-OPERATING GAINS (LOSSES):		
Interest earned on and gains on sales of investments	14,227,084	11,348,122
Rental income from leases	1,321,880	1,334,115
Community benefit services (Note 1)	(1,038,904)	(1,137,285)
	14,510,060	11,544,952
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES	26,537,765	17,483,524
FUND BALANCE AT BEGINNING OF YEAR	237,555,119	220,608,692
TRANSFERS TO FOUNDATION	(125,000)	-
TRANSFERS TO JEFFERSON PARISH (Note 1)	(563,349)	(537,097)
FUND BALANCES AT END OF YEAR	$263,404,535	$237,555,119

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

EAST JEFFERSON GENERAL HOSPITAL

STATEMENTS OF CASH FLOWS

	Year ended December 31, 1996	1995
OPERATING ACTIVITIES:		
Income from operations	$ 12,027,705	$ 5,938,572
Adjustments to reconcile income from operations to net cash provided by operating activities-		
Depreciation and amortization	14,255,149	13,674,968
Interest earned on unexpended bond proceeds	(1,927,361)	(2,239,143)
Interest expense on bonds and capital lease obligations	5,717,512	6,420,921
Changes in operating assets and liabilities-		
(Increase) decrease in net patient accounts receivable	(423,454)	(1,693,513)
(Increase) decrease in other receivables, inventories and prepaid expenses	(1,841,987)	(1,186,941)
Increase in net amounts due to contractual third-party payors	222,680	1,301,371
Increase (decrease) in trade accounts payable and accrued expenses	9,731,167	4,247,499
Increase in accrued pension liability	1,334,059	1,506,877
Net cash provided by operating activities	39,095,470	27,970,611
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of property, plant and equipment	(46,600,947)	(19,512,383)
Proceeds from disposals of property, plant and equipment	52,062	214,087
Principal payments on debt and capital lease obligations	(1,449,924)	(2,037,857)
Tax revenue	138	500
Interest payments on debt and capital lease obligations	(5,821,411)	(6,488,659)
Net cash used in capital and related financing activities	(53,820,082)	(27,824,312)
NONCAPITAL FINANCING ACTIVITIES:		
Unrestricted contributions	228,938	309,657
Transfer to Foundation	(125,000)	-
Transfer to Jefferson Parish	(563,349)	(537,096)
Community benefit services	(1,038,903)	(1,137,285)
Net cash used in noncapital financing activities	(1,498,314)	(1,364,724)
INVESTING ACTIVITIES:		
Interest received on investments and unexpended bond proceeds	15,217,583	12,590,852
Payments received on direct financing leases	272,705	272,705
Lease rentals	845,672	869,146
Purchases of investment securities	(231,274,842)	(162,646,257)
Proceeds from sales and maturities of investment securities	224,481,763	158,361,387
Gain on sales of U. S. Government obligations	1,510,488	129,864
Purchase of other assets	(3,325,496)	(5,154,129)
Net cash provided by (used in) investing activities	7,727,873	4,423,568
Increase (decrease) in cash and cash equivalents	(8,495,053)	3,205,143
Cash and cash equivalents at beginning of year	15,827,025	12,621,882
Cash and cash equivalents at end of year	$ 7,331,972	$ 15,827,025

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

EAST JEFFERSON GENERAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995

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) "Audits of Providers of Health Care Services" 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 for these items approximate fair value.

Investments

The Hospital follows paragraph 6 of GASB Statement No. 20 and, accordingly, follows guidance set forth in the AICPA's "Audits of Providers of Health Care Services" regarding the accounting for investments.

Investments are stated at cost or amortized cost, as applicable, plus accrued interest. Funds that were established in connection with the issuance of the 1993 Revenue Refunding Bonds, the 1986 Revenue Refunding Bonds and the 1985 Revenue Refunding 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 nonoperating 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.

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE

WITH THE GENERAL REQUIREMENTS APPLICABLE TO

FEDERAL FINANCIAL ASSISTANCE PROGRAMS

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

We have audited the general purpose financial statements of East Jefferson General Hospital (the Hospital) as of and for the year ended December 31, 1996, and have issued our report thereon dated February 28, 1997.

We have applied procedures to test the Hospital's compliance with the following requirements applicable to its federal financial assistance program, the East Jefferson General Hospital Mobility Impaired Transportation Services Program, for the year ended December 31, 1996: (*=Not applicable to East Jefferson General Hospital in 1996)

- Political activity
- Davis-Bacon Act(*)
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-free workplace
- Administrative requirements

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Hospital's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the Hospital had not complied, in all material respects, with those requirements.

This report is intended for the information of the board, management, Jefferson Parish, Louisiana, and the United States Department of Transportation. However, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

New Orleans, Louisiana,
March 28, 1997