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EAST JEFFERSON GENERAL HOSPITAL

FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

YEARS ENDED DECEMBER 31, 1997 AND 1996 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 13 1998

ARTHUR ANDERSEN

EAST JEFFERSON GENERAL HOSPITAL

FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

YEARS ENDED DECEMBER 31, 1997 AND 1996

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, 1997 and 1996, 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 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, 1997 and 1996, 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 March 6, 1998.

The retirement plan information on page 18 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,
March 6, 1998

EAST JEFFERSON GENERAL HOSPITAL

BALANCE SHEETS

DECEMBER 31, 1997 AND 1996

ASSETS

	1997	1996
CURRENT ASSETS:		
Cash and cash equivalents (Notes 1 and 2)	$ 7,303,380	$ 2,198,902
Short-term investments	88,127,268	92,482,633
Patient accounts receivable, less allowance for uncollectible accounts (1997 - $22,867,911; 1996 - $18,358,171)	37,103,489	31,078,923
Assets whose use is limited and required for current liabilities	4,542,099	4,468,590
Other receivables	5,079,607	3,830,972
Inventories (Note 1)	2,156,122	2,181,727
Prepaid expenses	5,282,579	4,145,785
Total current assets	149,594,544	140,387,532
ASSETS WHOSE USE IS LIMITED including cash, cash equivalents and investments (Note 2)		
Under 1985, 1986 and 1993 bond ordinances	8,325,064	7,919,301
By Board for specific purposes	124,916,753	126,915,901
Total assets whose use is limited	133,241,817	134,835,202
Less assets whose use is limited and required for current liabilities	(4,542,099)	(4,468,590)
Noncurrent assets whose use is limited	128,699,718	130,366,612
PROPERTY, PLANT AND EQUIPMENT, net (Note 3)	164,497,209	146,313,009
OTHER ASSETS:		
Net investment in direct financing leases (Note 5)	8,689,092	8,473,693
Unamortized debt issuance costs	2,828,729	3,201,764
Other (Note 1)	8,171,330	9,418,120
	19,689,151	21,093,577
	$462,480,622	$438,160,730

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

EAST JEFFERSON GENERAL HOSPITAL

BALANCE SHEETS

DECEMBER 31, 1997 AND 1996

LIABILITIES AND FUND BALANCE

	1997	1996
CURRENT LIABILITIES:		
Trade accounts payable	$ 17,802,596	$ 16,885,416
Amounts due to contractual third-party payors	14,552,154	1,580,449
Accrued interest	1,946,915	2,006,161
Other accrued expenses	16,629,316	15,824,930
Current portion of capital lease obligation	345,897	315,069
Current portion of long-term debt	2,249,287	2,147,360
Total current liabilities	53,526,165	38,759,385
ACCRUED PENSION LIABILITY	6,547,704	6,289,961
CAPITAL LEASE OBLIGATION, less current portion (Note 5)	12,421,684	12,767,579
LONG-TERM DEBT, less current portion (Note 4)	114,691,057	116,939,270
CONTINGENCIES (Note 7)		
FUND BALANCE	275,294,012	263,404,535
	$462,480,622	$438,160,730

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, 1997 AND 1996

	1997	1996
OPERATING REVENUES:		
Net patient service revenue	$210,683,390	$202,934,264
Other	2,366,228	2,187,340
Total operating revenues	213,049,618	205,121,604
OPERATING EXPENSES:		
Salaries, wages and benefits	104,183,094	95,399,323
Purchased services and other	47,373,339	43,914,740
Supplies	26,650,132	25,875,874
Provision for bad debts	14,707,391	10,043,700
Depreciation and amortization	16,084,273	14,255,149
Interest expense, net of interest income from bond fund investments of $2,013,097 in 1997 and $1,927,361 in 1996	3,097,546	3,490,149
Total operating expenses	212,095,775	192,978,935
INCOME FROM OPERATIONS	953,843	12,172,669
NON-OPERATING GAINS (LOSSES):		
Interest earned on and gains on sales of investments	11,368,517	14,112,120
Rental income from leases	1,385,355	1,321,880
Community benefit services (Note 1)	(930,911)	(1,038,904)
	11,822,961	14,395,096
REVENUES AND GAINS IN EXCESS OF EXPENSES AND LOSSES	12,776,804	26,537,765
FUND BALANCE AT BEGINNING OF YEAR	263,404,624	237,555,119
TRANSFERS TO FOUNDATION	-	(125,000)
TRANSFERS TO JEFFERSON PARISH (Note 1)	(887,416)	(563,349)
FUND BALANCE AT END OF YEAR	$275,294,012	$263,404,535

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

EAST JEFFERSON GENERAL HOSPITAL

STATEMENTS OF CASH FLOWS

	Year ended December 31, 1997	Year ended December 31, 1996
OPERATING ACTIVITIES:		
Income from operations	$ 953,843	$ 12,027,705
Adjustments to reconcile income from operations to net cash provided by operating activities-		
Depreciation and amortization	16,084,273	14,255,149
Interest earned on unexpended bond proceeds	(2,013,097)	(1,927,361)
Interest expense on bonds and capital lease obligations	5,110,643	5,717,512
Changes in operating assets and liabilities-		
Increase in net patient accounts receivable	*(6,024,566)*	*(423,454)*
Increase in other receivables, inventories and prepaid expenses	(2,359,824)	(1,841,987)
Increase in net amounts due to contractual third-party payors	12,971,705	222,680
Increase in trade accounts payable and accrued expenses	1,721,566	9,731,167
Increase in accrued pension liability	257,743	1,334,059
Net cash provided by operating activities	26,702,286	39,095,470
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of property, plant and equipment	(34,170,645)	(46,600,947)
Proceeds from disposals of property, plant and equipment	20,708	52,062
Principal payments on debt and capital lease obligations	(2,461,353)	(1.449.924)
Tax revenue	686	138
Interest payments on debt and capital lease obligations	(5,169,885)	(5,821,411)
Net cash used in capital and related financing activities	(41,780,489)	(53,820,082)
NON-CAPITAL FINANCING ACTIVITIES:		
Unrestricted contributions	151,159	228,938
Transfer to Foundation	-	(125,000)
Transfer to Jefferson Parish	(887,416)	(563,349)
Community benefit services	(930,911)	(1,038,903)
Net cash used in noncapital financing activities	(1,667,168)	(1,498,314)
INVESTING ACTIVITIES:		
Interest received on investments and unexpended bond proceeds	10,472,020	15,217,583
Payments received on direct financing leases	272,705	272,705
Lease rentals	897,251	845,672
Purchases of investment securities	(612,323,523)	(231,274,842)
Proceeds from sales and maturities of investment securities	622.780.434	224,481,763
Gain on sales of U. S. Government obligations	505,455	1,310,488
Purchase of other assets	(1,068,990)	(3,325,496)
Net cash provided by (used in) investing activities	21,535,352	7,727,873
Increase (decrease) in cash and cash equivalents	4,789,981	(8,495,053)
Cash and cash equivalents at beginning of year	7,331,972	15,827,025
Cash and cash equivalents at end of year	$ 12,121,953	$ 7,331,972

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) "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 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 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.

In March 1997 the Governmental Accounting Standards Board issued Statement No. 31 (GASB 31) "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which will be effective for the Hospital for the year ended December 31, 1998. GASB 31 requires that investments be reported at fair value in the balance sheet and all investment income including changes in fair value of investments be reported as revenue in the statement of revenues and expenses. Had GASB 31 been applied at December 31, 1997, the carrying value of the Hospital's investment would have been increased by approximately $1,077,000.

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, $1,806,000 in 1997 and $1,481,000 in 1996, 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 interest in a Health Maintenance Organization (HMO) which is accounted for under the equity method of accounting and, in 1997, an interest in a partnership which has developed a medical office building (see Note 5).

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 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:

- Medicare and Medicaid - Services rendered to Medicare and Medicaid program beneficiaries are paid principally based on 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 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.

The Hospital derives a significant amount (approximately 44% in 1997 and 45% in 1996) 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 $5,068,000 in 1997 and $3,110,000 in 1996.

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 $637,748 in 1997 and $563,349 in 1996 to the Parish to fund a medical facility at the Parish prison; additional transfers of $249,668 to fund other Parish programs were made in 1997. 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 1996 balances to conform to the current year presentation.

2. CASH AND INVESTMENTS:

The Hospital's cash, cash equivalents and investment balances at December 31, 1997 and 1996 consist of the following:

	1997	1996
Cash and repurchase agreements	$ 8,974,251	$ 3,792,311
Money market accounts	3,147,702	3,539,658
Total cash and cash equivalents	12,121,953	7,331,972
U. S. Government obligations	214,952,954	221,167,005
Certificates of deposit (with maturities of more than three months when purchased)	125,000	125,000
Accrued interest receivable	1,446,674	866,876
	$228,646,581	$229,490,853
Fair market value	$229,723,312	$229,811,779

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

	1997	1996
Current assets:		
Cash and cash equivalents	$ 7,303,380	$ 2,198,902
Short-term investments	88,127,268	92,482,633
Assets whose use is limited	133,241,817	134,835,202
Less: Due from Jefferson Parish	(25,884)	(25,884)
	$228,646,581	$229,490,853

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, 1997 and 1996 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 (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, 1997 were as follows:

	Credit Risk Category (1)	Credit Risk Category (2)	Credit Risk Category (3)	Carrying Amount	Market Value
Securities Type:					
U.S. Government obligations	$ -	$214,952,954	$ -	$214,952,954	$216,029,685
Cash and cash equivalents, certificates of deposit and accrued interest receivable	13,693,627	-	-	13,693,627	13,693,627
Total investments	$ 13,693,627	$214,952,954	$ -	$228,646,381	$229,723,312

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 1997 and 1996 consists of:

	1997	1996
Land and land improvements	$ 12,755,843	$ 12,660,167
Buildings	146,865,824	78,875,509
Equipment	125,791,069	118,001,841
Construction in progress	8,283,539	52,138,877
Total	293,696,275	261,676,394
Less - accumulated depreciation and amortization	(129,199,066)	(115,363,385)
Property, plant and equipment, net	$ 164,497,209	$ 146,313,009

4. LONG-TERM DEBT:

Long-term debt at December 31, 1997 and 1996 consists of:

	1997	1996
Customized Purchase Hospital Revenue Bonds, Series 1985	$ 55,000,000	$ 55,000,000
Hospital Revenue Refunding Bonds, Series 1993; 3.1% - 5.7%, due in installments to 2016	60,925,000	62,780,000
Note payable, collateralized by mortgage on land and medical clinic building	1,015,344	1,306,630
Total	116,940,344	119,086,630
Less: Current maturities	(2,249,287)	(2,147,360)
Total	$114,691,057	$116,939,270

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.

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:

1998	$ 2,249,287
1999	2,362,859
2000	2,488,198
2001	2,230,000
2002	2,345,000
Thereafter	50,265,000
	61,940,344
Funded at December 31, 1997	55,000,000
Total debt	$116,940,344

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, $4,790,000 and $6,130,000 were outstanding at December 31, 1997 and 1996, 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 $770,000 annually during 1997 and 1996. 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 56% limited partnership ownership interest in the MOB II limited partnership which had assets, primarily building and tenant improvements, of $13.5 million and debt of $11.5 million at December 31, 1997 and incurred losses of $340,000 in 1997. 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 $2,977,000 at December 31, 1997 and $2,699,000 at December 31, 1996. 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, 1997 on capitalized leases are as follows:

	Capitalized Leases
1998	$ 1,934,506
1999	1,939,874
2000	1,945,305
2001	1,906,746
2002	1,780,161
Thereafter	26,164,356
Total minimum lease payments	35,670,948
Less amount representing executory costs (i.e., operating expenses) included in total minimum lease payments	(8,477,128)
Net minimum lease payments	27,193,820
Less amount representing interest	(14,426,239)
Present value of net minimum lease payments (including $345,897 classified as a current liability)	$ 12,767,581

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, 1997 was $5,381,000 and the Hospital is to receive minimum future rentals of approximately $410,000 per year (aggregating $17,630,000) on this lease. The building portion of the net investment in direct financing leases is summarized below:

	1997	1996
Total minimum lease payments to be received	$ 25,985,310	$ 25,985,310
Less unearned income	(17,296,218)	(17,511,617)
Net investment in directing financing lease	$ 8,689,092	$ 8,473,693

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 (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, 1997 the Hospital's total payroll for all employees was approximately $86,409,000 and the Hospital's total covered payroll (for pension plan participants) was approximately $71,381,000. 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, 1997 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 1997 and 1996 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	$ 1,417,503
Adjustment to annual required contribution	197,497
Annual pension cost	1,615,000
Contribution made	(1,357,257)
Increase in net pension obligation	257,743
Net pension obligation beginning of year	6,289,961
Net pension obligation end of year	$ 6,547,704

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 $1,357,000 in 1997 and $316,000 in 1996 and is fully funded according to Internal Revenue Service funding limitations. A total of $6,548,000 has been accrued as a pension liability through December 31, 1997. 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
12/31/95	$ 1,700,000	100%	$ 4,956,000
12/31/96	1,650,000	100	6,290,000
12/31/97	1,615,000	100	6,548,000

Employee Savings Plan

Effective September 15, 1989, the Hospital adopted the East Jefferson General Hospital Savings Plan (the 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 $86,409,000 and the Hospital's total covered payroll (for savings plan participants) was approximately $71,381,000. Employer contributions and employer-paid Plan expenses totaled $2,545,000 in 1997 and $2,557,000 in 1996; employee contributions totaled $1,659,000 in 1997 and $1,524,000 in 1996.

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 $2,550,000 in 1997 and $2,525,000 in 1996. Assets and liabilities associated with the plan were $7,307,000 and $5,934,000 at December 31, 1997 and $5,046,000 and $3,946,000 at December 31, 1996, 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, 1997 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. 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 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.

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 1998 is approximately $27,200,000 of which approximately $3,600,000 relates to information systems improvements.

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, 1997 and 1996, was as follows:

	1997	1996
Medicare	39.0%	35.8%
Medicaid	5.5	5.6
Managed Care	26.8	26.6
Other third-party payors	12.1	13.1
Patients	16.6	18.9
	100.0%	100.0%

EAST JEFFERSON GENERAL HOSPITAL

REQUIRED SUPPLEMENTARY RETIREMENT PLAN INFORMATION
(Unaudited)

DECEMBER 31, 1997

Schedule of Funding Progress

	1/1/98	1/1/97	1/1/96
Actuarial Valuation Date	1/1/98	1/1/97	1/1/96
Actuarial Value of Assets (AVA)	$ 24,007,805	$ 19,753,066	$ 18,032,105
Actuarial Accrued Liability (AAL)	22,268,371	19,580,983	17,168,899
Excess of Assets over AAL (UAAL)	1,739,434	172,083	863,206
Funded Ratio	107.8%	100.9%	105.0%
Annual Covered Payroll	71,380,919	65,128,769	59,044,867
UAAL as % of Payroll	2.4%	.3%	1.5%

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, 1997, and have issued our report thereon dated March 6, 1998. 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 and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the 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
March 6, 1998

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 appued in our audits of the financial statements taken as a whole.

Arthur Andersen LLP

New Orleans, Louisiana,
March 6, 1998

EAST JEFFERSON GENERAL HOSPITAL

PATIENT SERVICE CHARGES BY DEPARTMENT

	Year Ended December 31, 1997		
	Inpatient	Outpatient	Total
ROUTINE SERVICES:			
Medical and surgical	$ 33,972,132	$ 2,454,515	$ 36,426,647
Intensive care	10,824,094	-	10,824,094
Coronary care	3,411,206	-	3,411,206
Psychiatric care	4,210,032	118,607	4,328,639
Nursery	3,946,215	-	3,946,215
Obstetrics	2,590,391	92,919	2,683,310
Rehabilitation	7,717,539	3,526,325	11,243,864
Skilled nursing facility	9,128,993	-	9,128,993
ANCILLARY SERVICES:			
Ambulance	1,604,104	4,115,203	5,719,307
Anesthesiology	7,211,629	6,408,934	13,620,563
Blood bank	4,358,160	857,094	5,215,254
Cardiology	20,855,949	7,553,546	28,409,495
Central supply	17,891,921	3,435,780	21,327,701
Dialysis	1,692,120	-	1,692,120
Electoencephalography	274,651	180,200	454,851
Emergency services	5,176,727	10,622,148	15,798,875
Endoscopy	1,663,947	3,659,061	5,323,008
Home health	-	2,862,029	2,862,029
Labor and delivery	4,210,160	926,212	5,136,372
Laboratory	23,915,635	8,547,135	32,462,770
Magnetic resonance imaging	1,205,616	4,032,457	5,238,073
Nuclear medicine	1,284,532	2,201,662	3,486,194
One day stay	-	3,111,884	3,111,884
Operating and recovery	35,417,863	19,369,838	54,787,701
Occupational medicine	-	393,870	393,870
Outpatient screening	111,891	-	111,891
Pharmacy and I.V. solution	52,453,867	7,516,859	59,970,726
Physical therapy	6,795,751	328,066	7,123,817
Physician network revenue	-	12,997,513	12,997,513
Radiation therapy	648,472	6,641,184	7,289,656
Radiology	14,571,060	16,224,124	30,795,184
Respiratory care	20,258,571	1,944,880	22,203,451
Wound care center	4,780	1,131,821	1,136,601
	$297,820,568	$131,253,866	428,661,874
PROVISION FOR CONTRACTUAL ALLOWANCES			(212,910,570)
UNCOMPENSATED CARE			(5,067,914)
NET PATIENT SERVICE REVENUE			$ 210,683,390

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
Electroencephalography	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	21,304,104	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			(172,298,762)
UNCOMPENSATED CARE			(3,109,765)
NET PATIENT SERVICE REVENUE			$ 202,934,264

EAST JEFFERSON GENERAL HOSPITAL

OTHER REVENUE AND PROVISION FOR CONTRACTUAL ALLOWANCES

	Year Ended December 31	
	1997	1996
OTHER REVENUE:		
Cafeteria	$ 1,246,407	$ 1,236,703
Educational fees	39,217	9,645
Special meals	443,544	455,390
Vending machines	147,840	135,545
Telephone	2,796	2,175
Medical record abstract	27,374	14,705
Elder advantage fees	24,453	30,045
Central supply	8,407	9,519
Miscellaneous	426,190	293,613
	$ 2,366,228	$ 2,187,340
PROVISION FOR CONTRACTUAL ALLOWANCES:		
Medicare contractual adjustments	$ 146,953,986	$ 113,402,182
Medicaid contractual adjustments	11,331,104	10,845,489
Managed care discounts	54,233,320	47,631,859
Obstetric package discounts	392,160	419,232
	$ 212,910,570	$ 172,298,762

EAST JEFFERSON GENERAL HOSPITAL

DEPARTMENTAL EXPENSES

	Year Ended December 31, 1997				Year Ended December 31, 1996			
	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	$ 12,974,990	$ 536,263	$ 406,433	$ 13,917,686	$12,010,385	$ 501,486	$ 81,715	$12,593,586
Intensive care	4,208,220	154,670	89,038	4,451,928	4,058,613	163,534	10,295	4,232,442
Coronary care	1,068,473	37,764	34,721	1,140,958	1,089,582	38,153	6,053	1,133,788
Psychiatric care	948,156	17,871	51,003	1,017,030	1,017,700	17,533	105,642	1,140,875
Nursery	1,603,427	122,071	31,068	1,756,566	1,530,445	108,538	25,670	1,664,653
Nursing administration	202,151	5,537	2,988	210,676	102,862	4,454	14,219	121,535
Obstetrics	846,340	21,977	38,527	906,844	873,690	21,450	5,527	900,667
Rehabilitation	1,125,028	74,303	3,805,887	5,005,218	1,176,767	72,967	3,672,399	4,922,133
Skilled nursing facility	2,300,360	103,966	102,302	2,506,628	2,098,876	93,147	14,771	2,206,794
	25,277,145	1,074,422	4,561,967	30,913,534	23,958,920	1,021,262	3,936,291	28,916,473
ANCILLARY SERVICES:								
Ambulance	1,890,709	163,600	44,702	2,099,011	1,945,832	150,089	28,759	2,124,680
Anesthesiology	59,412	627,584	22,769	709,765	61,677	642,500	24,404	728,581
Blood bank	572,662	878,195	54,283	1,505,140	557,638	1,071,028	156,243	1,784,909
Cardiology	2,473,136	4,241,966	253,292	6,968,394	2,472,944	3,941,966	307,673	6,722,583
Central supply	444,163	2,171,973	540,051	3,156,187	431,151	2,847,226	471,646	3,750,023
Dialysis	-	2,768	568,319	571,087	-	1,977	437,595	439,572
Electoencephalography	70,352	14,070	3,624	88,046	76,051	15,956	14,761	106,768
Emergency services	3,507,933	341,568	4,246,434	8,095,935	3,515,810	316,749	3,665,356	7,497,915
Endoscopy	375,371	308,845	135,697	819,913	343,800	269,760	74,562	688,122
Home health	1,317,545	344,154	527,217	2,188,916	641,968	238,273	893,889	1,774,130
Labor and delivery	993,321	208,184	27,444	1,228,949	916,350	190,309	7,374	1,114,033
Laboratory	2,596,622	1,233,221	777,791	4,607,634	2,642,538	1,254,684	690,399	4,587,621
Magnetic resonance imaging	236,762	202,872	295,820	735,454	237,007	196,802	308,073	741,882
Nuclear medicine	267,771	507,629	63,477	838,877	266,588	434,765	43,917	745,270
One day stay	696,611	35,868	43,621	776,100	545,732	17,874	5,786	569,392
Operating and recovery	3,374,903	7,557,646	1,393,492	12,326,041	3,363,918	6,620,177	1,062,942	11,047,037
Outpatient rehabilitation	143,013	41,239	152,667	336,919	-	-	-	-
Outpatient screening	138,083	180,943	6,010	325,036	-	-	-	-
Pharmacy and I.V. solution	-	(2,928)	10,909,835	10,906,907	-	(483)	10,323,616	10,323,133
Physical therapy	1,449,890	84,451	126,391	1,660,732	1,264,594	89,137	27,922	1,381,653
Radiation therapy	703,106	105,286	273,286	1,081,678	663,430	106,453	295,867	1,065,750
Radiology	2,150,999	1,358,260	1,282,169	4,791,428	2,297,630	1,172,305	740,051	4,209,986
Respiratory care	3,355,781	602,293	74,164	4,032,238	3,478,316	640,922	109,658	4,228,896
Wound care center	215,212	269,814	547,541	1,032,567	196,172	265,913	551,077	1,013,162
	27,033,357	21,479,501	22,370,096	70,882,954	22,919,446	23,484,022	20,241,570	66,645,038

EAST JEFFERSON GENERAL HOSPITAL

DEPARTMENTAL EXPENSES

	Year Ended December 31, 1997				Year Ended December 31, 1996			
	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	1,990,449	1,849,315	148,053	3,987,817	1,922,333	1,853,327	150,740	3,926,400
Housekeeping	1,788,432	364,614	241,818	2,394,864	1,570,363	324,788	159,007	2,054,158
Laundry	72,915	32,550	(19)	105,449	71,177	294,677	757,682	1,123,536
Plant engineering and security	2,514,951	468,686	575,672	3,559,311	2,526,365	480,769	627,168	3,634,302
Utilities	-	-	2,260,555	2,260,555	-	-	2,071,752	2,071,752
	[illegible]	2,715,165	3,226,079	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FISCAL AND ADMINISTRATIVE SERVICE:								
Accounting	395,922	8,667	10,519	415,108	[illegible]	9,360	14,501	371,249
Administration	6,451,358	186,520	1,681,069	8,319,147	6,010,749	226,298	2,934,684	9,171,731
Information systems	1,845,377	201,576	2,618,815	4,665,768	1,617,455	218,949	2,353,604	4,190,008
Education	220,394	26,756	107,629	354,779	223,675	31,943	78,882	334,500
Employee benefits	15,984,534	-	-	15,984,534	15,912,327	-	-	15,912,327
Financial support services	240,158	1,437	9,665	251,260	249,594	1,484	8,194	259,272
Insurance	-	-	2,527,643	2,527,643	-	-	2,856,903	2,856,903
Medical records	1,213,182	60,948	483,758	1,757,888	1,321,581	57,776	715,570	2,094,927
Miscellaneous	-	-	490,113	490,113	-	-	1,070,577	1,070,577
Patient accounts	2,419,746	125,260	71,093	2,616,099	2,146,433	120,517	68,112	2,335,062
Personnel	544,760	39,807	324,543	909,110	545,047	71,980	325,324	942,351
Physician's network	14,545,587	607,897	5,303,452	20,456,906	9,570,774	541,645	3,099,901	13,212,320
Printing and duplication	56,674	59,820	416,196	532,690	52,423	62,457	397,649	512,529
Professional fees	-	-	1,862,448	1,862,448	-	-	811,164	811,164
Communications and community affairs	505,111	29,652	699,461	1,234,224	380,210	35,441	665,854	1,081,505
Purchasing	317,662	3,290	(5,089)	315,863	299,358	4,351	20,310	324,019
Social services	336,240	4,207	819	341,266	337,061	3,815	2,619	343,495
Telephone service	328,525	14,084	575,322	917,931	314,407	14,199	493,737	822,340
Volunteer services	100,410	11,123	37,741	149,274	102,640	16,514	52,545	171,999
	45,505,310	1,381,014	17,215,197	64,102,161	39,450,71[illegible]	1,417,02[illegible]	15,970,530	56,818,278
Total expenses	$104,183,0[illegible]	$26,630,12[illegible]	$47,[illegible]	$178,206,565	$95,399,323	$25,875,874	$43,914,740	$165,189,937

EAST JEFFERSON GENERAL HOSPITAL

SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT

	Assets			
	January 1, 1997	Additions	Transfers and Disposals	December 31, 1997
Land	$ 9,801,678	$ –	$ –	$ 9,801,678
Land improvements	2,858,489	7,637	88,039	2,954,165
Buildings	78,875,509	2,060,900	65,929,415	146,865,824
Fixed equipment	58,274,039	2,089,613	(406,676)	59,956,976
Major movable equipment	57,589,969	6,514,537	(490,140)	63,614,366
Minor equipment	2,137,833	78,220	3,674	2,219,727
Construction in progress	52,138,877	23,419,738	(67,275,076)	8,283,539
	$261,676,394	$34,170,645	$ (2,150,764)	$293,696,273

	Accumulated Depreciation and Amortization			
	January 1, 1997	Additions	Transfers and Disposals	December 31, 1997
Land	$ –	$ –	$ –	$ –
Land improvements	2,342,253	87,546	–	2,429,799
Buildings	34,890,048	4,645,918	–	39,535,966
Fixed equipment	42,751,051	4,263,532	(345,068)	46,669,515
Major movable equipment	33,450,655	6,160,292	(1,105,812)	38,505,135
Minor equipment	1,929,378	145,894	(16,621)	2,058,651
Construction in progress	–	–	–	–
	$115,363,385	$15,303,182	$ (1,467,501)	$129,199,066

EAST JEFFERSON GENERAL HOSPITAL

HOSPITAL STATISTICS (UNAUDITED)

	Year Ended December 31 1997	1996
Admissions - total	20,831	19,367
Inpatients (excluding nursery)	19,100	17,845
Nursery - newborn and neonatal	1,731	1,522
Patient days of service - total	125,007	115,844
Inpatients (excluding nursery)	119,943	111,650
Nursery - neonatal	2,106	1,691
Nursery - newborn	2,958	2,503
Special care units days of service (included in inpatient days of service above):		
Psychiatric unit	6,073	6,846
Rehabilitation unit	9,241	9,682
Skilled nursing facility unit	21,598	18,987
Average daily census	342.5	316.5
Inpatients (excluding nursery)	328.6	305.1
Nursery - neonatal	5.8	4.6
Nursery - newborn	8.1	6.8
Percentage of occupancy:		
Inpatients (excluding nursery)	71.9%	68.2%
Medicare percentage of total patient days	65.2%	64.6%
Average length of stay (days):		
Inpatients (excluding nursery)	6.3	6.3
Nursery - newborn and neonatal	2.9	2.8
Psychiatric unit	6.3	7.3
Rehabilitation unit	18.6	20.0
Skilled nursing facility unit	15.1	14.0

EAST JEFFERSON GENERAL HOSPITAL

HOSPITAL STATISTICS (UNAUDITED)

	Year Ended December 31 1997	1996
Ambulance runs (net)	14,533	12,981
Anesthesiology cases	14,010	12,753
Blood bank units of service	1,474,224	1,386,641
Cardiology:		
Cath lab procedures	7,273	6,985
Noninvasive procedures	50,119	48,407
Deliveries (newborn)	1,722	1,528
EEG tests	1,893	2,200
Emergency room visits	50,750	47,822
Endoscopy procedures	8,530	7,696
Laboratory units of service	6,308,659	5,904,124
Operations performed	14,154	12,749
Open heart operations	518	531
Physical therapy relative value units	156,576	113,997
Recovery room visits	8,905	8,092
Respiratory care units of service	406,443	397,963
Radiology:		
Diagnostic exams	81,396	80,271
CT scans	12,013	11,013
Nuclear medicine exams	6,773	6,370
Ultrasonic procedures	9,819	9,853
Special procedures	3,407	2,939
MRI procedures	5,521	4,835
Full-time equivalent employees	2,157	2,099

ARTHUR ANDERSEN LLP

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EAST JEFFERSON GENERAL HOSPITAL

AUDIT REPORTS RELATED TO OMB CIRCULAR A-133
YEAR ENDED DECEMBER 31, 1997

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 13 1998

EAST JEFFERSON GENERAL HOSPITAL

MOBILITY IMPAIRED TRANSPORTATION SERVICES PROGRAM

YEAR ENDED DECEMBER 31, 1997

CONTENTS

EAST JEFFERSON GENERAL HOSPITAL

MOBILITY IMPAIRED TRANSPORTATION SERVICES PROGRAM

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 1997

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

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY

INFORMATION - SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

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, 1997, and have issued our report thereon dated March 6, 1998. 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 6, 1998

EAST JEFFERSON GENERAL HOSPITAL

MOBILITY IMPAIRED TRANSPORTATION SERVICES PROGRAM

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

YEAR ENDED DECEMBER 31, 1997

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 1997, however the grant has not expired.

REPORT OF INDEPENDENT AUDITORS ON THE 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, 1997. Compliance with the requirements of laws, regulations, contracts and grants applicable 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, 1997.

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.

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,
March 6, 1998

ARTHUR ANDERSEN

Arthur Andersen LLP

Suite [illegible]
201 [illegible] Avenue
New Orleans LA 70170-4500
504 581 5454

March 6, 1998

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, 1997, 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 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

Monitoring of Accounts Receivable with Credit Balances

Credit balances in accounts receivable should be reviewed and addressed on a timely basis to maintain a meaningful accounts receivable aging and to simplify the review of accounts receivable. The departments involved should develop procedures to consistently conduct appropriate reviews of the required reports on a periodic basis to facilitate the timely resolution of credit balances. Total credit balances should also be specifically considered in calculating the reserve for contractual adjustments and bad debts.

> *Management Response:* Management concurs with Arthur Andersen's recommendation and will implement procedures necessary to address these concerns.

EJPN Managed Care

A formal contractual allowance and bad debt reserve methodology should be developed to ensure the adequacy of the allowance and consistency of reporting. Business at East Jefferson Physician Network has continuously grown since its inception, making consistent application of a standard methodology increasingly important to providing a mechanism for management to easily monitor and record reserves.

> *Management Response:* Management concurs that a formal contractual allowance and bad debt reserve methodology needs to be developed to ensure the accuracy of the allowance and consistency of reporting. Target date for implementation of this methodology is 3rd Quarter 1998.

Disaster Recovery

A disaster recovery plan exists for mainframe applications only. The applications on the ES9000, RISC6000, AS 400 and other servers are backed up and rotated offsite twice daily, however, a disaster recovery plan does not exist for these systems. Without a disaster recovery plan for the applications not on the mainframe, mission critical applications could be down that would have a direct impact on patient care. As mission critical systems move from the mainframe to the client server environment, a disaster recovery plan should be developed and tested in the same manner as the mainframe is currently being tested.

> *Management Response:* Management agrees with the findings and plans to evaluate an enterprise wide disaster and business recovery plan that includes all server and minicomputer systems. The Hospital is considering outsourcing key operational function and has included the disaster recovery planning requirement in the criteria for selection. Responses to this tactic are under review with several vendors that provide outsourcing for computer operations, maintenance and disaster recovery.

Conversion

EJGH will be converting its financial systems from SMS Unity to SMS PeopleSoft during 1998 A project plan is currently being developed with the input and of persons responsible for the financial systems and the end users. The plan does not currently address the development and implementation of internal controls in the new system. We recommend that a control plan be developed for the system conversion and the new system to ensure that accurate financial information is consistently maintained.

> *Management Response:* Management agrees that a control plan needs to be developed for the implementation of the PeopleSoft financial system. Efforts are underway to incorporate internal controls under the direction and guidance from the Internal Audit department. We agree that additional Hardware/Software security controls need to be developed and implemented, to supplement the application of our existing control environment on this new system.

Property

We noted that the accounting department does not perform reconciliations between the general ledger and the property ledger on a regular basis. Because of the large amounts associated with property balances and because depreciation expense is calculated based on the property ledger, the general ledger and property ledger should be regularly reconciled so that both systems reflect accurate information.

> *Management Response:* Management agrees with Arthur Andersen's recommendations as noted.

EAST JEFFERSON GENERAL HOSPITAL
IMPLEMENTATION OF PRIOR YEAR RECOMMENDATIONS
AS OF DECEMBER 31, 1997

	Implemented	Partially Implemented	Not Implemented
EJPN Multiple Cash Accounts	X		
Inventory Tracking		X	
MD LLC Entities	X		
MM Payable			X
Information Systems Access Control	X		
Information Systems Security Administration	X		