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EAST JEFFERSON GENERAL HOSPITAL

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1998 AND 1997
WITH REPORT OF INDEPENDENT AUDITORS

EAST JEFFERSON GENERAL HOSPITAL

FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

YEARS ENDED DECEMBER 31, 1998 AND 1997

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ARTHUR ANDERSEN LLP

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, 1998 and 1997, 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.

Except as discussed in the following paragraph, 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.

Governmental Accounting Standards Board Technical Bulletin 98-1, "Disclosures about Year 2000 Issues," requires disclosure of certain matters regarding the Year 2000 issue. The Hospital has included such disclosures in Note 9. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determined until the Year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the Hospital's disclosures with respect to the Year 2000 issue made in Note 9. Further, we do not provide assurance that the Hospital is or will be Year 2000 ready, that the Hospital's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Hospital does business will be Year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding Year 2000 disclosures, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital, as of December 31, 1998 and 1997, and the results of its operations and it's 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 5, 1999.

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 5, 1999

EAST JEFFERSON GENERAL HOSPITAL

BALANCE SHEETS

DECEMBER 31, 1998 AND 1997

ASSETS

	1998	1997
CURRENT ASSETS:		
Cash and cash equivalents (Notes 1 and 2)	$ 2,069,091	$ 7,303,380
Short-term investments	94,601,552	88,555,916
Patient accounts receivable, less allowance for uncollectible accounts (1998 - $23,736,386; 1997 - $22,867,911)	44,696,698	37,103,489
Assets whose use is limited and required for current liabilities	4,610,334	4,542,099
Other receivables	3,547,889	5,079,607
Inventories (Note 1)	2,371,072	2,156,122
Prepaid expenses	6,168,622	5,282,579
Total current assets	158,065,258	150,023,192
ASSETS WHOSE USE IS LIMITED including cash, cash equivalents and investments (Note 2):		
Under bond ordinances	6,713,567	8,295,429
By Board for specific purposes	122,869,175	125,594,471
Total assets whose use is limited	129,582,742	133,889,900
Less amounts required for current liabilities	(4,610,334)	(4,542,099)
Noncurrent assets whose use is limited	124,972,408	129,347,801
PROPERTY, PLANT AND EQUIPMENT, net (Note 3)	169,017,241	164,497,209
OTHER ASSETS:		
Net investment in direct financing leases (Note 5)	8,917,083	8,689,092
Unamortized debt issuance costs	2,468,581	2,828,729
Other (Note 1)	6,644,767	8,171,330
Total other assets	18,030,431	19,689,151
Total	$470,085,338	$463,557,353

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

EAST JEFFERSON GENERAL HOSPITAL

BALANCE SHEETS

DECEMBER 31, 1998 AND 1997

LIABILITIES AND FUND BALANCE

	1998	1997
CURRENT LIABILITIES:		
Trade accounts payable	$ 14,799,446	$ 17,802,596
Amounts due to contractual third-party payors	6,240,305	14,552,154
Accrued interest	1,867,999	1,946,915
Other accrued expenses	16,271,389	16,629,316
Current portion of capital lease obligation	379,475	345,897
Current portion of long-term debt	2,362,860	2,249,287
Total current liabilities	41,921,474	53,526,165
ACCRUED PENSION LIABILITY	6,680,201	6,547,704
CAPITAL LEASE OBLIGATION, less current portion (Note 5)	12,042,210	12,421,684
LONG-TERM DEBT, less current portion (Note 4)	112,328,196	114,691,057
CONTINGENCIES (Note 7)		
FUND BALANCE	297,113,257	276,370,743
	$470,085,338	$463,557,353

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, 1998 AND 1997

	1998	1997
OPERATING REVENUES:		
Net patient service revenue	$243,804,798	$210,683,390
Other operating revenues	2,445,731	2,366,228
Total operating revenues	246,250,529	213,049,618
OPERATING EXPENSES:		
Salaries, wages and benefits	113,422,427	104,024,777
Purchased services and other	57,068,785	47,531,656
Supplies	27,507,587	26,650,132
Provision for bad debts	18,131,563	14,707,391
Depreciation and amortization	17,196,698	16,084,273
Interest expense, net of interest income from bond fund investments of 1,918,540 in 1998 and $2,013,097 in 1997	4,445,515	3,097,546
Total operating expenses	237,772,575	212,095,775
INCOME FROM OPERATIONS	8,477,954	953,843
NON-OPERATING GAINS (LOSSES):		
Investment income and other nonoperating revenues	13,105,376	12,124,411
Rental income from leases	1,357,558	1,385,355
Community benefit services (Note 1)	(949,518)	(930,911)
Total nonoperating gains (losses)	13,513,416	12,578,855
REVENUES AND GAINS IN EXCESS OF EXPENSES AND LOSSES	21,991,370	13,532,698
FUND BALANCE AT BEGINNING OF YEAR	276,370,743	263,725,461
TRANSFERS TO JEFFERSON PARISH (Note 1)	(1,248,856)	(887,416)
FUND BALANCE AT END OF YEAR	$297,113,257	$276,370,743

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

EAST JEFFERSON GENERAL HOSPITAL

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	1998	1997
OPERATING ACTIVITIES:		
Income from operations	$ 8,477,954	$ 953,843
Adjustments to reconcile income from operations to net cash provided by operating activities-		
Depreciation and amortization	17,196,698	16,084,273
Interest earned on unexpended bond proceeds	(1,918,540)	(2,013,097)
Interest expense on bonds and capital lease obligations	6,364,055	5,110,643
Changes in operating assets and liabilities-		
Patient accounts receivable	(7,593,209)	(6,024,566)
Other receivables, inventories and prepaid expenses	430,725	(2,359,824)
Other assets, net	1,160,390	(1,068,990)
Amounts due to contractual third-party Payors	(8,311,849)	12,971,705
Trade accounts payable and accrued expenses	(3,361,077)	1,721,566
Accrued pension liability	132,497	257,743
Net cash provided by operating activities	12,577,644	25,633,296
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of property, plant and equipment	(20,950,703)	(34,170,645)
Proceeds from disposals of property, plant and equipment	774	20,708
Principal payments on debt and capital lease obligations	(2,595,184)	(2,461,353)
Tax revenue	334	686
Interest payments on debt and capital lease obligations	(6,442,971)	(5,169,885)
Net cash used in capital and related financing activities	(29,987,750)	(41,780,489)
NON-CAPITAL FINANCING ACTIVITIES:		
Unrestricted contributions	25,150	151,159
Transfer to Jefferson Parish	(1,248,856)	(887,416)
Community benefit services	(949,518)	(930,911)
Net cash used in noncapital financing activities	(2,173,224)	(1,667,168)
INVESTING ACTIVITIES:		
Investment income and other	14,033,114	10,977,475
Payments received on direct financing leases	272,705	272,705
Lease rentals	840,351	897,251
Purchases of investment securities	(1,818,121,107)	(612,323,523)
Proceeds from sales and maturities of investment securities	1,822,793,491	622,780,434
Net cash provided by investing activities	19,818,554	22,604,342
Increase in cash and cash equivalents	235,224	4,789,981
Cash and cash equivalents at beginning of year	12,121,953	7,331,972
Cash and cash equivalents at end of year	$ 12,357,177	$ 12,121,953

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, 1998 AND 1997

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

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

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

Inventory

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is provided using the straight-line method over estimated useful lives as follows:

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

Interest capitalized on construction, $526,964 in 1998, and $1,806,000 in 1997, is amortized using the straight-line method over the useful lives of the constructed assets.

Costs of Borrowing

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

Other Assets

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

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:

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

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

The Hospital derives a significant amount (approximately 42% in 1998 and 44% in 1997) of its net patient service revenue from patients covered by the Medicare and Medicaid programs and by Medicare health maintenance organization insurance plans.

Charity Care and Services Provided to Benefit the Community

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its uncompensated care policy. Because the Hospital does not pursue collection of amounts determined to qualify as uncompensated care, these amounts are not reported as revenue. Uncompensated care provided, measured at established rates, approximated $4,742,000 in 1998 and $5,068,000 in 1997.

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 $651,607 in 1998 and $637,748 in 1997 to the Parish to fund a medical facility at the Parish prison; additional transfers of $597,249 and $249,668 to fund other Parish programs were made in 1998 and 1977, respectively. These transfers have been recorded in the Hospital's financial statements as transfers of fund balance.

Gifts, Grants and Bequests

Gifts, grants and bequests not designated by donors for specific purposes are reported as 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 balances to conform to the current year presentation.

2. CASH AND INVESTMENTS:

The Hospital's cash, cash equivalents and investment balances at December 31, 1998 and 1997 consist of the following:

	1998	1997
Cash and repurchase agreements	$ 3,803,121	$ 8,974,251
Money market accounts	8,554,056	3,147,702
Total cash and cash equivalents	12,357,177	12,121,953
U. S. Government obligations	212,555,290	216,029,685
Certificates of deposit (with maturities of more than three months when purchased)	125,000	125,000
Accrued interest receivable	1,215,918	1,446,674
Fair market value	$226,253,385	$229,723,312

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

	1998	1997
Current assets:		
Cash and cash equivalents	$ 2,069,091	$ 7,303,380
Short-term investments	94,601,552	88,555,916
Assets whose use is limited	129,582,742	133,889,900
Less: Due from Jefferson Parish	-	(25,884)
	$226,253,385	$229,723,312

Louisiana state statutes authorize the Hospital to invest in direct obligations of the U. S. Treasury and other Federal Agencies, time deposits with state banks and national banks having their principal office in the State of Louisiana, guaranteed investment contracts issued by highly rated financial institutions and certain investments with qualifying mutual or trust fund institutions. Louisiana statutes also require that all of the deposits of the Hospital be protected by insurance or collateral. The market value of collateral pledged must equal or exceed 100% of the deposits not covered by insurance. The bank balances of deposits at December 31, 1998 and 1997 were entirely covered by insurance or collateral held by financial institutions in the Hospital's name.

The Hospital's investments are categorized below to give an indication of the level of risk assumed at year end. Category (1) includes investments that are insured or registered for which the securities are held by the Hospital or its agent in the Hospital's name. Category (2) includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Hospital's name. Category (3) includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Hospital's name. Balances at December 31, 1998 were as follows:

	Credit Risk Category			Total Fair
	(1)	(2)	(3)	Value
Securities Type:				
U.S. Government obligations	$ -	$212,555,290	$ -	$212,555,290
Cash and cash equivalents, certificates of deposit and accrued interest receivable	13,698,095	-	-	13,698,095
Total investments	$13,698,095	$212,555,290	$ -	$226,253,385

3. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment at December 31, 1998 and 1997 consists of:

	1998	1997
Land and land improvements	$ 12,755,843	$ 12,755,843
Buildings	147,006,374	146,865,824
Equipment	137,359,792	125,791,069
Construction in progress	17,059,733	8,283,539
Total	314,181,742	293,696,275
Less - accumulated depreciation and amortization	(145,164,501)	(129,199,066)
Property, plant and equipment, net	$ 169,017,241	$ 164,497,209

4. LONG-TERM DEBT:

Long-term debt at December 31, 1998 and 1997 consists of:

	1998	1997
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	58,990,000	60,925,000
Note payable, collateralized by mortgage on land and medical clinic building	701,056	1,015,344
Total	114,691,056	116,940,344
Less: Current maturities	(2,362,860)	(2,249,287)
Long-term debt, less current maturities	$112,328,196	$114,691,057

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. Management has expressed its intention to extend the maturity of the 1985 Bonds, and accordingly, the liability for the 1985 Bonds and the associated Board - Designated investments are shown as long term liabilities and assets, respectively, at December 31, 1998.

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.

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

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

	1998 Bonds	Other	Total
1999	$ -	$ 2,362,860	$ 2,362,860
2000	-	2,488,196	2,488,196
2001	-	2,230,000	2,230,000
2002	2,415,000	2,345,000	4,760,000
2003	2,510,000	7,810,000	10,320,000
Thereafter	120,075,000	42,455,000	162,530,000
Total	125,000,000	59,691,056	184,691,056
Funded at December 31, 1998	-	55,000,000	55,000,000
Total debt, including 1998 bonds	$ 125,000,000	$ 114,691,056	$ 239,691,056

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, $3,330,000 and $4,790,000, remained outstanding at December 31, 1998 and 1997, 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 1998 and 1997. The base rent is to be increased or decreased as may be necessary to account for increases or decreases in the Hospital's share of operating and financing expenses, as defined in the agreement. In addition, the portion of the base rent which is in excess of the base operating expense and the base financing expense is subject to a one percent (1%) annual cumulative escalation during the term of the lease.

The Hospital granted a ground lease through December 31, 2035 to East Jefferson General Hospital Foundation (the Foundation), a related party through common management, and two other ground leases to developers, for the development, construction and operation of a parking garage, and physician office buildings, respectively. The developer of one of the physician office buildings (MOB I) is a limited partnership composed of a 5% general partner, medical staff physicians who are tenants in the building, and limited partners. The developer of the second office building (MOB II) is a limited partnership composed of a 5% general partner, medical staff physicians and the Hospital. The improvements constructed on the leased land are to revert to the Hospital, without cost, upon termination of the leases. The Hospital has a 52.75% limited partnership ownership interest in the MOB II limited partnership which had assets, primarily building and tenant improvements, of $13.1 million and debt of $11.4 million at December 31, 1998 and had earnings of $205,000 in 1998. The Hospital leases the parking garage from the Foundation under a capital lease which expires in 2017 and it is included in buildings at a carrying value of $8,347,000, less accumulated amortization of $3,255,000 at December 31, 1998 and $2,977,000 at December 31, 1997. 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, 1998 on capitalized leases are as follows:

	Capitalized Leases
1999	$ 1,939,874
2000	1,945,305
2001	1,906,746
2002	1,780,161
2003	1,785,753
Thereafter	24,378,603
Total minimum lease payments	33,736,442
Less amount representing executory costs (i.e., operating expenses) included in total minimum lease payments	(8,038,318)
Net minimum lease payments	25,698,124
Less amount representing interest	(13,276,439)
Present value of net minimum lease payments (including $379,475 classified as a current liability)	$ 12,421,685

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, 1998 was $5,381,000 and the Hospital is to receive minimum future rentals of approximately $410,000 per year (aggregating $17,220,000) on this lease. The building portion of the net investment in direct financing leases is summarized below:

	1998	1997
Total minimum lease payments to be received	$ 25,985,310	$ 25,985,310
Less unearned income	(17,068,227)	(17,296,218)
Net investment in directing financing lease	$ 8,917,083	$ 8,689,092

Annual lease payments to be received on the rental of the building for each of the next five years total $2,598,529.

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, 1998 the Hospital's total payroll for all employees was approximately $93,670,000 and the Hospital's total covered payroll (for pension plan participants) was approximately $77,079,000. Covered payroll refers to all compensation paid by the Hospital to active employees covered by the Plan on which contributions to the Plan are based.

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

Basis of Accounting

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

Funding Status and Progress

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

Significant actuarial assumptions used in 1998, 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	$ 1,659,191
Adjustment to annual required contribution	(109,191)
Annual pension cost	1,550,000
Contribution made	(1,417,503)
Increase in net pension obligation	132,497
Net pension obligation beginning of year	6,547,704
Net pension obligation end of year	$ 6,680,201

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 $1,418,000 in 1998 and $1,357,000 in 1997 and is fully funded according to Internal Revenue Service funding limitations. A total of $6,680,000 has been accrued as a pension liability through December 31, 1998. 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
12/31/96	1,650,000	19%	6,290,000
12/31/97	1,615,000	84%	6,548,000
12/31/98	1,550,000	91%	6,680,000

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, 1998, the Hospital's total payroll for all employees was approximately $93,670,000 and the Hospital's total covered payroll (for savings plan participants) was approximately $77,079,000. Employer contributions and employer-paid Plan expenses totaled $2,928,000 in 1998 and $2,545,000 in 1997; employee contributions totaled $2,099,000 in 1998 and $1,659,000 in 1997.

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 $2,507,000 in 1998 and $2,550,000 in 1997. Assets and liabilities associated with the plan were $8,067,000 and $5,165,000 at December 31, 1998 and $7,307,000 and $5,934,000 at December 31, 1997, 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, 1998 which is not asserted until after insurance coverage terminates, may result in a liability to the Hospital. Management intends to renew its existing malpractice insurance policies upon expiration and has no reason to believe that it will not be able to do so. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims, but believes any such claims, if asserted, would be settled within the limits of the Hospital's insurance coverage.

The healthcare industry is subject to numerous laws and regulations of Federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers in recent years. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is currently in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Legislation and regulation at all levels of government have affected and are likely to continue to affect the operation of the Hospital. Federal healthcare reform legislation proposals debated in Congress in recent years have included the imposition of price controls and/or healthcare spending budgets or targets, significant reductions in Medicare and Medicaid program reimbursement to hospitals and the promotion of a restructured delivery and payment system focusing on competition among providers based on price and quality, managed care, and steep discounting or capitated payment arrangements with many, if not all, of the Hospital's principal payors. It is not possible at this time to determine the impact on the Hospital of government plans to reduce Medicare and Medicaid spending, government implementation of national and state healthcare reform or market-initiated delivery system and/or payment methodology changes. However, such changes could have an adverse impact on operating results, cash flows and estimated debt service coverage of the Hospital in future years.

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

The Hospital has numerous ongoing construction and equipment acquisition projects. The Hospital's capital budget for 1999 is approximately $34,700,000 of which approximately $9,000,000 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, 1998 and 1997 was as follows:

	1998	1997
Medicare	39.1%	39.0%
Medicaid	6.0	5.5
Managed Care	30.4	26.8
Other third-party payors	10.9	12.1
Patients	13.6	16.6
	100.0%	100.0%

9. "YEAR 2000" ISSUES (UNAUDITED):

East Jefferson General Hospital has instituted and maintained a comprehensive program to insure that the Hospital is Year 2000 compliant. This "due diligence" effort is directed not only at internal systems but also at those external systems, such as product vendors and service providers, who assist the Hospital in maintaining efficient daily operations. The Y2K program is structured in four independent yet integrated focal points, Medical Devices, Life Safety, Telecommunications, Information Systems.

East Jefferson General Hospital started working on the Year 2000 project several years ago and as such, the Hospital had time to replace/upgrade systems as part of the normal capital replacement/upgrade program avoiding remediation.

Awareness

General awareness of the Year 2000 issues was initiated in late 1996 and then brought to the Information Systems Steering Committee and Board of Directors in June 1997. A full awareness campaign followed thereafter.

In March of 1998, a Medical Devices Steering Committee was commissioned to address issues concerning the Year 2000 bug and all non-information systems devices; most notably Medical Devices. It was the role of this group to define the exact size of the problem in terms of "affected device" identification, establish criteria for categorizing "risk of patient injury" due to Y2K failure, develop an accurate cost estimate of remediation, provide a detailed plan for the remediation of all identified devices, identify possible remediation process resources and define methods for disseminating relevant information to the hospital staff.

In June of 1998, an Executive Committee was formed to provide a forum and appropriate mechanism for administrative review, resolution of global Y2K issues and rapid decision making. For the Year 1999, the Hospital's governing board approved a budget for the funding of the remediation of all Medical, Telecommunication, Life-Safety devices and systems.

Assessment

In October 1997 the Board of Directors approved an outside consultant to assist the Hospital with the century date change planning and impact assessment. East Jefferson General completed an inventory of computer software and hardware that may be affected by the Year 2000 issue. A risk analysis was conducted that defined four risk areas and an implementation approach was developed.

Utilizing an already established, up-to-date database of medical devices, each device was graded by degree of risk to patient safety against its potential for Y2K failure. All departments were polled as to the completeness of the inventory and the feedback of the department's expertise with regard to "risk for patient injury" was eagerly solicited. Each device's manufacturer was interrogated as to their "publicly stated" position for their product's Y2K compliance status. Utilizing this data, the Hospital established a comprehensive and detailed database of all "affected medical devices" tracking both the cost and methods of remediation. In those instances where affected devices or systems are complex and highly technical, the Hospital employed industry experts to assist with assessment and remediation.

Remediation

East Jefferson General strategically purchases software packages rather than develop in-house software code. Therefore, East Jefferson General does not have to actually remediate (change code), but rather install and test versions of vendors' software packages that are Y2K ready. This state is considered detail planning and implementation and has been underway since 1997. The Hospital has in excess of 70 software packages that need to be upgraded and tested. Assistance for outside consultants and specialized vendors is being utilized.

For each "affected medical device," the Hospital is in the process of either purchasing upgrades and replacement products or outlining the Hospital's "manual interventions" that will ultimately render all devices Year 2000 compliant. Resources employed to perform the remediations vary with each device and are drawn either from the Hospital's own biomedical staff, specified departmental staff, and/or company biomedical representatives. All remediations are specifically documented and logged.

Validation/Testing

A detail test and validation plan has been developed. This plan includes resource and funding requirements. It also outlines stages of component testing and full system integrated testing. Test data and test scripts are being developed and test results are being documented. It is anticipated that of the 70+ software packages, not all software will be Y2K tested before the century date change. The plan targets the Hospital's mission critical applications to be Y2K ready before the end of 1999.

As stated above, medical devices are very diverse in nature and the methods employed to validate them are just as varied. All testing and validation procedures are both documented and logged. In rare cases, validation testing has been identified by the manufacturer as being both prohibitive and counter-productive. In such cases, the Hospital has complied with the manufacturer's recommendations and as substitute obtained explicit documentation explaining the technical issues at hand and containing a "formal statement of responsibility" from the manufacturers.

Due to the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation, efforts will not be fully determinable until the Year 2000 and thereafter, and management cannot assure that the Hospital or those with whom the Hospital conducts business will be ready.

EAST JEFFERSON GENERAL HOSPITAL

REQUIRED SUPPLEMENTARY RETIREMENT PLAN INFORMATION
(Unaudited)

DECEMBER 31, 1998

Schedule of Funding Progress

Actuarial Valuation Date	1/1/99	1/1/98
Actuarial Value of Assets (AVA)	$ 25,761,027	$ 24,007,805
Actuarial Accrued Liability (AAL)	25,110,946	22,268,371
Excess of Assets over AAL (UAAL)	650,081	1,739,434
Funded Ratio	102.6%	107.8%
Annual Covered Payroll	77,079,097	71,380,919
UAAL as % of Payroll	0.8%	2.4%

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, 1998, and have issued our report thereon dated March 5, 1999, which was qualified because insufficient audit evidence exists to support the Hospital's disclosures with respect to the Year 2000 issue. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors and management, however, this report is a matter of public record and its distribution is not limited.

Arthur Andersen LLP

New Orleans, Louisiana,
March 5, 1999

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,
March 5, 1999

EAST JEFFERSON GENERAL HOSPITAL

PATIENT SERVICE CHARGES BY DEPARTMENT

	Year Ended December 31, 1998		
	Inpatient	Outpatient	Total
ROUTINE SERVICES:			
Medical and surgical	$ 34,834,103	$ 2,496,632	$ 37,330,735
Intensive care	12,317,062	-	12,317,062
Coronary care	3,923,810	-	3,923,810
Psychiatric care	4,698,061	441,706	5,139,767
Nursery	5,449,033	-	5,449,033
Obstetrics	3,198,862	38,984	3,237,846
Rehabilitation	7,606,199	3,914,298	11,520,497
Skilled nursing facility	9,160,253	-	9,160,253
ANCILLARY SERVICES:			
Ambulance	1,651,277	4,087,318	5,738,595
Anesthesiology	7,172,100	6,837,213	14,009,313
Blood bank	4,477,632	971,769	5,449,401
Cardiology	21,478,753	8,774,168	30,252,921
Central supply	18,772,917	3,618,308	22,391,225
Dialysis	1,579,312	-	1,579,312
Electoencephalography	311,037	224,390	535,427
Emergency services	5,642,367	11,395,808	17,038,175
Endoscopy	1,952,046	4,730,392	6,682,438
Home health	-	2,029,310	2,029,310
Labor and delivery	4,977,321	788,397	5,765,718
Laboratory	25,924,624	9,972,251	35,896,875
Magnetic resonance imaging	1,439,385	4,373,165	5,812,550
Nuclear medicine	1,417,900	2,470,865	3,888,765
One day stay	-	3,854,085	3,854,085
Operating and recovery	34,267,621	20,753,420	55,021,041
Outpatient screening	113,276	-	113,276
Pharmacy and I.V. solution	57,841,837	8,737,100	66,578,937
Physical therapy	7,129,897	403,313	7,533,210
Physician network revenue	-	15,869,067	15,869,067
Radiation therapy	589,992	5,939,038	6,529,030
Radiology	18,135,772	22,047,038	40,182,810
Respiratory care	22,626,470	2,255,445	24,881,915
Wound care center	11,125	1,385,291	1,396,416
	$ 318,700,044	148,408,771	467,108,815
PROVISION FOR CONTRACTUAL ALLOWANCE			(218,561,547)
UNCOMPENSATED CARE			(4,742,470)
NET PATIENT SERVICE REVENUE			$ 243,804,798

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
	$ 297,408,008	$ 131,253,866	428,661,874
PROVISION FOR CONTRACTUAL ALLOWANCE			(212,910,570)
UNCOMPENSATED CARE			(5,067,914)
NET PATIENT SERVICE REVENUE			$ 210,683,390

EAST JEFFERSON GENERAL HOSPITAL

OTHER REVENUE AND PROVISION FOR CONTRACTUAL ALLOWANCES

	Year Ended December 31, 1998	
	1998	1997
OTHER REVENUE:		
Cafeteria	$ 1,324,534	$ 1,246,407
Educational fees	24,856	39,217
Special meals	500,111	443,544
Vending machines	197,917	147,840
Telephone	5,521	2,796
Medical record abstract	6,028	27,374
Elder advantage fees	19,140	24,453
Central supply	2,084	8,407
Miscellaneous	365,540	426,190
	$ 2,445,731	$ 2,366,228
PROVISION FOR CONTRACTUAL ALLOWANCES:		
Medicare contractual adjustments	$ 142,351,537	$ 146,953,986
Medicaid contractual adjustments	10,470,019	11,331,104
Managed care discounts	65,413,559	54,233,320
Obstetric package discounts	326,432	392,160
	$ 218,561,547	$ 212,910,570

EAST JEFFERSON GENERAL HOSPITAL

DEPARTMENTAL EXPENSES

	Year Ended December 31, 1998				Year Ended December 31, 1997			
	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	$ 13,533,795	$ 527,461	$ 479,926	$ 14,541,182	$ 12,974,990	$ 536,263	$ 406,433	$ 13,917,686
Intensive care	5,177,165	164,764	98,426	5,440,355	4,208,220	154,670	89,038	4,451,928
Coronary care	1,266,091	45,614	41,054	1,352,759	1,068,473	37,764	34,721	1,140,958
Psychiatric care	1,050,466	50,460	95,760	1,196,686	948,156	17,871	51,003	1,017,030
Nursery	1,922,145	145,387	31,786	2,099,318	1,603,427	122,071	31,068	1,756,566
Nursing administration	247,357	6,929	1,514	255,800	202,151	5,537	2,988	210,676
Obstetrics	902,774	26,017	46,559	975,350	846,340	21,977	38,527	906,844
Rehabilitation	1,152,982	75,682	4,052,357	5,281,021	1,125,028	74,303	3,805,887	5,005,218
Skilled nursing facility	2,351,489	102,634	99,094	2,553,217	2,300,360	103,966	102,302	2,506,628
	27,604,264	1,144,948	4,946,476	33,695,688	25,277,145	1,074,422	4,561,967	30,913,534
ANCILLARY SERVICES:								
Ambulance	1,697,855	159,983	191,781	2,049,619	1,732,392	163,600	203,019	2,099,011
Anesthesiology	56,216	655,911	1,559	713,686	59,412	627,584	22,769	709,765
Blood bank	619,481	997,369	46,311	1,663,161	572,662	878,195	54,283	1,505,140
Cardiology	2,638,551	4,847,553	16,240	7,502,344	2,473,136	4,241,966	253,292	6,968,394
Central supply	440,596	2,124,067	472,171	3,036,834	444,163	2,171,973	540,051	3,156,187
Dialysis	-	788	469,051	469,839	-	2,768	568,319	571,087
Electoencephalography	71,336	11,153	4,930	87,419	70,352	14,070	3,624	88,046
Emergency services	4,031,175	408,053	4,573,018	9,012,246	3,507,933	341,568	4,246,434	8,095,935
Endoscopy	450,203	377,216	33,490	860,909	375,371	308,845	135,697	819,913
Home health	1,075,572	391,434	426,746	1,893,752	1,317,545	344,154	527,217	2,188,916
Labor and delivery	1,162,667	221,586	40,304	1,424,557	993,321	208,184	27,444	1,228,949
Laboratory	2,676,958	1,362,166	993,517	5,032,641	2,596,622	1,233,221	777,791	4,607,634
Magnetic resonance imaging	252,374	190,513	8,136	451,023	236,762	202,872	295,820	735,454
Nuclear medicine	265,022	546,446	24,226	835,694	267,771	507,629	63,477	838,877
One day stay	832,034	25,204	44,090	901,328	696,611	35,868	43,621	776,100
Operating and recovery	3,536,852	7,055,337	1,316,587	11,908,776	3,374,903	7,557,646	1,393,492	12,326,041
Outpatient rehabilitation	351,062	72,974	95,952	519,988	143,013	41,239	152,667	336,919
Outpatient screening	579,265	405,216	24,761	1,009,242	138,083	180,943	6,010	325,036
Pharmacy and I.V. solution	4,453	30,841	12,142,499	12,177,793	-	(2,928)	10,909,835	10,906,907
Physical therapy	1,495,161	107,779	52,382	1,655,322	1,449,890	84,451	126,391	1,660,732
Radiation therapy	576,056	92,951	202,467	871,474	703,106	105,286	273,286	1,081,678
Radiology	2,098,729	1,106,146	4,363,028	7,567,903	2,150,999	1,358,260	1,282,169	4,791,428
Respiratory care	3,785,243	575,073	53,447	4,413,763	3,355,781	602,293	74,164	4,032,238
Wound care center	205,121	68,924	899,774	1,173,819	215,212	269,814	547,541	1,032,567
	$ 28,901,982	$ 21,834,683	$ 26,496,467	$ 77,233,132	$ 26,875,040	$ 21,479,501	$ 22,528,413	$ 70,882,954

EAST JEFFERSON GENERAL HOSPITAL

DEPARTMENTAL EXPENSES

	Year Ended December 31, 1998				Year Ended December 31, 1997			
	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	$ 2,459,491	$ 2,101,964	$ 158,366	$ 4,719,821	$ 1,990,449	$ 1,849,315	$ 148,053	$ 3,987,817
Housekeeping	1,998,477	367,274	266,612	2,632,363	1,788,432	364,614	241,818	2,394,864
Laundry	80,412	26,000	-	106,412	72,918	32,550	(19)	105,449
Plant engineering and security	2,826,040	449,577	2,999,737	6,275,354	2,514,953	468,686	575,672	3,559,311
Utilities	-	-	1,992,108	1,992,108	-	-	2,260,555	2,260,555
	7,364,420	2,944,815	5,416,823	15,726,058	6,366,752	2,715,165	3,226,079	12,307,996
FISCAL AND ADMINISTRATIVE SERVIC								
Accounting	779,634	22,338	167,114	969,086	395,922	8,667	10,519	415,108
Administration	7,297,084	199,408	2,454,919	9,951,411	6,451,558	186,520	1,681,069	8,319,147
Information systems	2,291,975	181,600	2,935,039	5,408,614	1,845,377	201,576	2,618,815	4,665,768
Education	262,599	32,824	133,257	428,680	220,394	26,756	107,629	354,779
Employee benefits	16,092,878	-	-	16,092,878	15,984,534	-	-	15,984,534
Financial support services	137,400	1,915	705	140,020	240,158	1,437	9,665	251,260
Insurance	-	-	3,024,496	3,024,496	-	-	2,527,643	2,527,643
Medical records	1,350,642	60,120	372,521	1,783,283	1,213,182	60,948	483,758	1,757,888
Miscellaneous	-	-	737,497	737,497	-	-	490,113	490,113
Patient accounts	2,743,336	150,378	128,326	3,022,040	2,419,746	125,260	71,093	2,616,099
Personnel	571,361	48,250	152,670	772,281	544,760	39,807	324,543	909,110
Physician's network	16,012,214	692,080	6,153,228	22,857,522	14,545,557	607,897	5,303,452	20,456,906
Printing and duplication	65,230	61,942	455,601	582,773	56,674	59,820	416,196	532,690
Professional fees	-	-	1,986,821	1,986,821	-	-	1,862,448	1,862,448
Public relations	833,830	92,843	856,291	1,782,964	505,111	29,652	699,461	1,234,224
Purchasing	334,973	3,366	-	338,339	317,662	3,290	(5,089)	315,863
Social services	334,244	5,115	1,882	341,241	336,240	4,207	819	341,266
Telephone service	350,371	18,341	603,413	972,125	328,525	14,084	575,322	917,931
Volunteer services	93,990	12,621	45,239	151,850	100,440	11,123	37,741	149,304
	49,551,761	1,583,141	20,209,019	71,343,921	45,505,840	1,381,044	17,215,197	64,102,081
Total expenses	$ 113,422,427	$ 27,507,587	$ 57,068,785	$ 197,998,799	$ 104,024,777	$ 26,650,132	$ 47,531,656	$ 178,206,565

EAST JEFFERSON GENERAL HOSPITAL

SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT

	Assets			
	January 1, 1998	Additions	Transfers and Disposals	December 31, 1998
Land	$ 9,801,678	$ –	$ –	$ 9,801,678
Land improvements	2,954,165	–	–	2,954,165
Buildings	146,865,824	27,265	113,285	147,006,374
Fixed equipment	59,956,976	929,318	(964,053)	59,922,241
Major movable equipment	63,614,366	11,161,771	392,610	75,168,747
Minor equipment	2,219,727	56,155	(7,078)	2,268,804
Construction in progress	8,283,539	8,776,194	–	17,059,733
	$ 293,696,275	$ 20,950,703	$ (465,236)	$ 314,181,742

	Accumulated Depreciation and Amortization			
	January 1, 1998	Additions	Transfers and Disposals	December 31, 1998
Land	$ –	$ –	$ –	$ –
Land improvements	2,429,799	72,063	–	2,501,862
Buildings	39,535,966	5,953,277	–	45,489,243
Fixed equipment	46,669,515	3,452,881	–	50,122,396
Major movable equipment	38,505,135	6,837,383	(465,236)	44,877,282
Minor equipment	2,058,651	115,067	–	2,173,718
Construction in progress	–	–	–	–
	$ 129,199,066	$ 16,430,671	$ (465,236)	$ 145,164,501

EAST JEFFERSON GENERAL HOSPITAL

HOSPITAL STATISTICS (UNAUDITED)

	Year Ended December 31	
	1998	1997
Admissions - total	22,087	20,831
Inpatients (excluding nursery)	20,124	19,100
Nursery - newborn and neonatal	1,963	1,731
Patient days of service - total	131,637	125,007
Inpatients (excluding nursery)	124,736	119,943
Nursery - neonatal	2,988	2,106
Nursery - newborn	3,913	2,958
Special care units days of service (included in inpatient days of service above):		
Psychiatric unit	6,806	6,073
Rehabilitation unit	9,152	9,241
Skilled nursing facility unit	21,686	21,598
Average daily census	360.6	342.5
Inpatients (excluding nursery)	341.7	328.6
Nursery - neonatal	8.2	5.8
Nursery - newborn	10.7	8.1
Percentage of occupancy:		
Inpatients (excluding nursery)	74.8%	71.9%
Medicare percentage of total patient days	61.5%	65.2%
Average length of stay (days):		
Inpatients (excluding nursery)	6.2	6.3
Nursery - newborn and neonatal	3.5	2.9
Psychiatric unit	7.5	6.3
Rehabilitation unit	17.7	18.6
Skilled nursing facility unit	14.8	15.1

EAST JEFFERSON GENERAL HOSPITAL

HOSPITAL STATISTICS (UNAUDITED)

	Year Ended December 31	
	1998	1997
Ambulance runs (net)	13,637	14,533
Anesthesiology cases	14,696	14,010
Blood bank units of service	1,551,633	1,474,224
Cardiology:		
Cath lab procedures	7,844	7,273
Noninvasive procedures	53,622	50,119
Deliveries (newborn)	1,935	1,722
EEG tests	2,493	1,893
Emergency room visits	53,884	50,750
Endoscopy procedures	10,290	8,530
Laboratory units of service	6,225,681	6,308,659
Operations performed	14,953	14,154
Open heart operations	503	518
Physical therapy relative value units	164,649	156,576
Recovery room visits	9,447	8,905
Respiratory care units of service	463,250	406,443
Radiology:		
Diagnostic exams	72,017	81,396
CT scans	8,205	12,013
Nuclear medicine exams	8,042	6,773
Ultrasonic procedures	5,915	9,819
Special procedures	3,190	3,407
MRI procedures	5,439	5,521
Full-time equivalent employees	2,337	2,157

ARTHUR ANDERSEN

March 5, 1999

Arthur Andersen LLP

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To the Board of Directors
East Jefferson General Hospital

As part of our audit of the financial statements for East Jefferson General Hospital (EJGH) for the year ended December 31, 1998, we considered the Hospital's internal control structure in determining the scope of our audit procedures for the purposes 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 the matters outlined below that we want to bring to your attention.

Credit Balances

Credit balances were not considered in the calculation of the allowance for doubtful accounts. We recommend that a report be generated that details credit balances by aged financial class and that EJGH personnel use this report to consider gross debit balances in the allowance template to improve the estimate of the reserve for bad debts.

Management Response

Management agrees with Arthur Andersen's observation and is now including credit balances as part of its considerations for adjusting its estimate of bad debts and other allowances.

Allowance for Financial Class G

Financial Class G is comprised of patients who are covered by both Medicaid and some other third party payor. EJGH does not provide a reserve for contractual adjustments for accounts receivable balances in Financial Class G which are less than 180 days old. We recommend that EJGH include Financial Class G in the calculation for the allowance for contractual adjustments to avoid understating the reserve.

Management Response

Management agrees with Arthur Andersen's observation and has adjusted its procedures for estimating contractuals and other allowances to include Financial Class G accounts of less than 180 days old.

Capitated Referral

With the increase in covered lives under capitated plans, EJGH has an increased risk of incurring "referral charges" for covered lives who go to a healthcare provider other than EJGH for treatment. Despite the increase in activity in the capitated plans, the accrual for referral charges remained at the same balance as last year. We recommend that EJGH monitor the level of referral charges throughout the year and adjust the accrual accordingly.

Management Response

Management agrees with Arthur Andersen's observation and will adjust these estimates in accordance with changing activity during the year.

CIP and Capitalized Interest Transferred to Property

Only a relatively small amount of CIP was transferred to property in 1998 even though there were a number of projects that were substantially complete. Because of the large amounts associated with CIP projects and the effect that they may have on depreciation, it is important to periodically evaluate the construction projects to determine if a transfer to property is necessary. In addition, the portion of capitalized interest (recorded in one separate account within CIP in interim periods) that relates to completed construction projects should be added to the balance of the project when it is transferred to property.

Management Response

Management agrees with Arthur Andersen's observations and is changing its process to include more timely transfer of these projects into the depreciation records of the Hospital.

Inventory

A new inventory management system was implemented this year that does not recognize that an inventory item as having been received until the invoice is received. In many cases, there is a lag between the time the goods are received and the time the invoice is received which results in an understatement of inventory as well as accounts payable, since inventory items are physically on hand, but not yet recorded in the system as inventory and as accounts payable. Management should implement procedures to address this issue at period-end.

Management Response

Management agrees with Arthur Andersen's observation and is in the process of converting the financial system and gaining and training experience relative to the utilization of this system. We plan to have the procedures in place prior to the period enclosed for 1999.

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 for EJPN. The volume of business at East Jefferson Physician Network has continued to grow 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 with the recommendation and plans to implement by June 30, 1999. Monthly, management will review the aged accounts receivable trial balance by financial class and devise a methodology to reserve for uncollectibles based on payor class and age.

Information Systems

Overall, EJGH operates in a highly complex technical environment. Information Systems Department personnel are highly competent and have developed policies and procedures to manage the risks associated with a complex environment. A quality assurance function incorporated into the East Jefferson audit function structure would also help reduce the risk in this area by providing an independent, external view of Information Systems operations. Internal audits could include reviews of user access rights and compliance with department policies and procedures. An audit function would also provide a way of assuring the methods and procedures of vendors and out-sourced functions conform to contract specifications.

Management Response

Management agrees with this observation. In a highly complex technical environment, quality assurance for Information Systems operations should be incorporated into the East Jefferson General audit function. Policy changes have been implemented to ensure that computer software remains year 2000 compliant once software has been remediated. East Jefferson General contracted IBM for year 2000 remediation and has implemented a new quality control methodology.

An Accelerated Improvement Process (AIP) regarding user access included internal audit. This improvement process resulted in quicker and more accurate response for security access to information systems. The plan is to further utilize the AIP process to address user access rights and compliance with department policies.

Several information systems areas have been outsourced. These include network communications, help desk, server management and year 2000 remediation. Each contract is managed by tracking deliverables and related cost in order to ensure vendors conform to contract specifications.

Very truly yours,

Arthur Andersen LLP