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East Jefferson General Hospital and Related Organizations

Combined Financial Report

12.31.2003

Contents

McGladrey & Pullen
Certified Public Accountants

LaPorte Sehrt
Romig Hand
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
East Jefferson General Hospital
Jefferson Parish, Louisiana

We have audited the accompanying combined basic financial statements of East Jefferson General Hospital and related organizations (the Organization) (Jefferson Parish Hospital Service District No. 2, is a component unit of Jefferson Parish, Louisiana) as of and for the years ended December 31, 2003 and 2002 as listed in the table of contents. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 combined basic financial statements referred to above present fairly, in all material respects, the financial position of East Jefferson General Hospital and related organizations, a component unit of Jefferson Parish, Louisiana, as of December 31, 2003 and 2002, and the changes in their financial position and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2004 on our consideration of the East Jefferson General Hospital and related organizations' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 9 and the required retirement plan information, schedule of funding progress on page 35 are not a required part of the combined basic financial statements, but are 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the combined basic financial statements that collectively comprise the Organization's combined basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the combined basic financial statements. The combining and other supplementary information for the years ended December 31, 2003 and 2002 has been subjected to the auditing procedures applied in the audit of the combined basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined basic financial statements taken as a whole.

The accompanying Hospital statistics, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the combined basic financial statements. This information has not been subjected to the auditing procedures applied in our audit of the combined basic financial statements, and accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Davenport, Iowa
February 20, 2004, except for the sixth paragraph of Note 9
as to which the date is February 25, 2004

LaPorte, Sehrt, Romig & Hand

Metairie, Louisiana
February 20, 2004, except for the sixth paragraph of Note 9
as to which the date is February 25, 2004

East Jefferson General Hospital
and Related Organizations

Management's Discussion and Analysis
Years Ended December 31, 2003 and 2002

Management's discussion and analysis of East Jefferson General Hospital (EJGH), Jefferson Parish Hospital Service District No. 2., a component of Jefferson Parish, Louisiana, and related organizations' (the Organization) financial performance provides an overall review of the Organization's activities for the calendar years ended December 31, 2003 and 2002. The intent of this discussion is to provide an overview of the Organization's performance for the years and should be read in conjunction with the Organization's combined basic financial statements and notes thereto.

EJGH operates a 470-bed general acute care hospital and physician practices located in Metairie, Louisiana. EJGH serves the citizens of the greater New Orleans area and particularly residents of the East Bank of Jefferson Parish.

The combined basic financial statements also include PET Scan Center of East Jefferson, LLC, which operates a PET Scan facility, and East Jefferson Physician Network, LLC which was used to acquire several physician practices.

Financial Highlights

The assets of the Organization exceeded its liabilities by $292,237,059 and $294,973,504 (net assets) as of December 31, 2003 and 2002, respectively.

The Organization's total assets decreased by $10,453,493 or 1.8% from December 31, 2002 and $27,569,409 or 4.6% from December 31, 2001.

The Organization's total liabilities decreased by $7,717,048 or 2.8% from December 31, 2002 and $13,489,992 or 4.7% from December 31, 2001.

Overview of Financial Statements

The audited financial statements include the combined basic financial statements: Combined Balance Sheets, Combined Statements of Revenue, Expenses and Changes in Net Assets, and Combined Statements of Cash Flows plus the Notes to the Combined Basic Financial Statements.

Our financial position is measured in terms of resources (assets) we own and obligations (liabilities) we owe at a given date. This information is reported in the Combined Balance Sheets, which reflects the Organization's assets in relation to its debts to bondholders, suppliers, employees, and other creditors. The excess of our assets over our liabilities is reported as Net Assets.

Information regarding the results from operations during the year is reported in the Combined Statement of Revenue, Expenses, and Changes in Net Assets. This statement shows how much our net assets increased or decreased during the year as a result of our operations, nonoperating activities, and other changes.

The Combined Statement of Cash Flows discloses the flow of cash resources into and out of the Organization during the year. It identifies all cash received during the year from operating activities, contributions and other sources, and how we applied those funds (for example, payment of expenses, repayment of debt, purchases of new property and equipment, additions and deletions to the investment accounts, and transfers to related entities).

The notes to the combined basic financial statements provide additional information that is essential to a full understanding of the data provided in the combined basic financial statements.

Condensed Combined Statements of Revenue, Expenses, and Changes in Net Assets

A summary version of the Statements of Revenue, Expenses, and Changes in Net Assets for the years ended December 31, 2003, 2002 and 2001 follows:

	Year Ended December 31,		
	2003	2002	2001
	(Dollars in Thousands)		
Net patient revenue	$ 245,998	$ 231,897	$ 250,408
Other operating revenue	5,906	6,567	6,147
Total operating revenue	251,904	238,464	256,555
Nonoperating revenue	10,468	20,958	26,123
Total revenue	262,372	259,422	282,678
Expenses:			
Salaries, wages, and benefits	133,071	143,097	132,548
Purchased services and other	61,179	57,613	64,232
Supplies	35,843	33,924	36,649
Depreciation and amortization	20,268	19,669	19,211
Interest	12,452	12,474	12,346
Total operating expenses	262,813	266,777	264,986
Nonoperating expenses	426	5,116	500
Total expenses	263,239	271,893	265,486
Income (loss) before transfers and minority interest	(867)	(12,471)	17,192
Transfers to Jefferson Parish	(1,064)	(1,126)	(1,115)
Minority interest in net (income) loss of related organizations	(805)	(483)	20
Change in net assets	(2,736)	(14,080)	16,097
Net assets:			
Beginning	294,973	309,053	292,956
Ending	$ 292,237	$ 294,973	$ 309,053

Operations

Year Ended December 31, 2003: Total operating revenue increased from 2002 to 2003 by $13,440,000. A complete charge master review was completed and prices were changed to more properly reflect the intensity of services and supplies provided. Outpatient diagnostic and therapeutic procedures increased along with properly capturing second procedure revenue. Outpatient equivalent admissions increased by approximately 7%. Overall, efficiencies were gained in the capture and proper coding of charges.

Operating expenses decreased from 2002 to 2003 by $3,964,000. The most significant decrease occurred in the area of salaries and benefits which decreased by approximately $10,000,000. Hospital staffing was reduced by 232 full-time equivalents and efficiencies were gained by eliminating and consolidating job functions. Purchased services and other expenses increased from 2002 to 2003 by $3,566,000 largely as a result of outside expertise hired to assist with restructuring the Hospital. Supply expense increased from $34,924,000 in 2002 to $35,843,000 in 2003 largely as a result of overall increases in the market for drug and medical supplies.

The net loss before transfers and minority interest for the year ended December 31, 2002, was $12,471,000 and for the year ended December 31, 2003, the loss was $867,000 reflecting improvement in enhanced revenue capture and expense control.

Year Ended December 31, 2002: The operations in 2002 suffered from many complex issues. Operating revenue was down $18,091,000 from 2001 or 7.1%. This decline was due to a reduction in admissions of 1,583 or 7.2%, which resulted in a decline of inpatient days of 7,953 from 2001 or 6.7%. Outpatient volume also declined from 2001 to 2002. Outpatient equivalent admissions were down 568 or 6.1% from 2001. In addition there was a change in the make-up of the EJGH patient population. Medicare patient days declined 11% from 2001 to 2002 and as a percent of total patient days went from 58.1% of total patient days in 2001 to 53.7% of total patient days in 2002. Bad debt expense, which is presented as a reduction of operating revenue, increased $6,031,000 in 2002 versus 2001, principally due to the bankruptcy of several managed care organizations in the New Orleans market and also due to a slumping economy and a related increase in the number of patients without insurance.

Operating expenses for 2002 were up $1,791,000 or 0.7% over 2001. Salaries, wages, and benefits were up $10,549,000 or 8.0% while purchased services and supplies expense was down $9,344,000 or 4.7% from 2001.

The net result is that the loss from operations increased from $8,431,000 in 2001 to $28,313,000 or 236% in 2002.

Nonoperating income, which consists mostly of investment earnings, rental income, contributions, and in 2002 an impairment loss, was down $9,781,000 or 38% from 2001. In 2002, there was a non-cash write-down due to the impairment of the direct financing lease, as further described in the Notes to the Combined Basic Financial Statements, on $4,602,000. This was the result of a lease cancellation upon bankruptcy of a physician group that occupied a building owned by EJGH.

Condensed Combined Balance Sheets

Condensed versions of the Balance Sheets as of December 31, 2003, 2002 and 2001 follow:

	December 31,					
		2003		2002		2001
			(Dollars in Thousands)			
Assets:						
Current assets	$	118,792	$	109,886	$	127,484
Assets limited as to use, noncurrent		239,700		244,699		248,412
Capital assets		188,620		201,728		198,943
Other assets		10,269		11,522		20,565
Total assets	$	557,381	$	567,835	$	595,404
Liabilities:						
Current liabilities	$	31,959	$	32,150	$	40,629
Long-term debt		227,996		233,537		238,809
Retirement benefits, noncurrent		25		25		25
Other liabilities, noncurrent		5,164		7,150		6,888
Total liabilities	$	265,144	$	272,862	$	286,351
Net Assets:						
Invested in capital assets, net of related debt	$	10,083	$	17,919	$	10,118
Restricted under bond indenture		21,002		20,920		19,922
Unrestricted		261,152		256,134		279,013
Total net assets	$	292,237	$	294,973	$	309,053

Long-term debt consists of several revenue bond issues issued in 1985, 1993, and 1998. The Organization continues to make all annual and semi-annual debt service payments in compliance with these bond indentures. There are no current plans to issue additional debt or defease any existing debt, other than already in place at December 31, 2003. Please see the Notes to the Combined Basic Financial Statements for additional information.

December 31, 2003: Total current assets increased in 2003 by $8,906,000. Cash and short-term investments provided $5,356,000 of that increase over prior year primarily due to better operating income in 2003. The non-current portion of assets limited as to use, capital assets, and other assets were $19,360,000 less than prior year. Overall, total assets decreased by $10,454,000 over prior year primarily due to depreciation on capital assets in excess of capital expenditures.

Total liabilities decreased over prior year by $7,718,000. Of this decrease, $5,541,000 is caused by a reduction of long-term debt due to principal payments made.

December 31, 2002: Total assets declined in 2002 due to the losses incurred from operations and the write-down in the direct financing lease. The Organization's financial position remained strong, with current assets in excess of current liabilities by $86,855,000 in 2001 and by $77,736,000 in 2002. Also, significant investment reserves were available to service debt requirements as well as provide for future equipment and capital needs.

Condensed Combined Statements of Cash Flows

	Year Ended December 31,		
	2003	2002	2001
		(Dollars in Thousands)	
Cash provided by operating activities	$ 16,629	$ 3,099	$ 22,954
Cash (used in) capital and related financing activities	(24,446)	(35,530)	(36,039)
Cash (used in) non-capital financing activities	(1,591)	(3,036)	(4,689)
Cash provided by investing activities	13,553	38,313	18,679
Net increase in cash	4,145	2,846	905
Cash and cash equivalents:			
Beginning	4,164	1,318	413
Ending	$ 8,309	$ 4,164	$ 1,318

Year Ended December 31, 2003: Cash provided by operating activities increased significantly over prior year by $13,530,000. In addition, cash used in capital and related financing activities decreased from prior year by $11,084,000; however, cash provided by investing activities was $24,760,000 less than prior year as a result of the general slump in the investment market. Cash and cash equivalents have increased over prior year by $4,145,000. In January 2004, the Organization entered into an agreement for the purchase and implementation of a new software system and related equipment. This agreement extends through the year ending December 31, 2010 with a total commitment of $25,810,000. The Organization has no plans to issue additional bonds.

Year Ended December 31, 2002: Liquidity remained strong in 2002, even with the losses from operations. Cash flows generated from the net sale of securities of $24,527,000 and investment income of $13,061,000 offset the cash used in capital and related financing activities of $35,530,000. Cash and other liquid investments exceeded bonded debt and accrued interest by $59,583,000.

Capital Assets

December 31, 2003: At December 31, 2003 the Organization had $188,620,000 invested in capital assets. Capital expenditures in 2003 were approximately $13,061,000 less than 2003 depreciation expense, resulting in a reduction of capital assets from 2002 to 2003.

December 31, 2002: At December 31, 2002 the Organization had $201,728,000 invested in capital assets. This represented a slight increase in comparison to December 31, 2001. This was principally due to the fact that capital expenditures were limited to an amount slightly in excess of annual depreciation in 2002.

	December 31,		
	2003	2002	2001
	(Dollars in Thousands)		
Capital assets not being depreciated:			
Land	$ 10,718	$ 10,718	$ 10,718
Construction in progress	3,235	2,878	8,000
Capital assets net of depreciation:			
Land improvements	2,302	2,594	2,430
Buildings	126,447	131,738	123,699
Fixed equipment	4,788	6,322	7,768
Major movable equipment	41,100	47,429	46,239
Minor equipment	30	49	89
Total capital assets, net	$ 188,620	$ 201,728	$ 198,943

Long-Term Debt

Long-term debt consists of three revenue bond issues, described in more detail in the Notes to the Combined Basic Financial Statements. The principal balance on the outstanding bonds was $222,990,000, $227,910,000 and $232,610,000 as of December 31, 2003, 2002 and 2001, respectively. The decreases are attributable to the bond principal payments made in 2003 and 2002. No new debt was issued in 2003 or 2002.

Economic Factors

Year Ended December 31, 2003: Fiscal 2003 continued to provide EJGH with substantial challenges due to a slumping economy, additional cuts in Medicare and Medicaid reimbursement, aggressive marketing campaigns by our competitors, and a related decrease in patient admissions at EJGH.

We continue to work developing collaborative relations with physicians, HMO/PPO's, and other insurance payors to stabilize reimbursement rates. We also continue to provide services to patients who are underinsured or who are self pay. In addition, we are exploring the opportunity of purchasing a competitor's facility to increase utilization, and we have a massive new marketing plan underway in addition to a new Board of Directors.

Year Ended December 31, 2002: Fiscal 2002 provided EJGH substantial challenges due to a slumping economy, reductions in federal reimbursement, the bankruptcies of several HMOs and a large multi-specialty clinic located on the EJGH campus, and a related decrease in patient admissions at EJGH.

Inflation continued in 2002 with supply and equipment costs increasing at market rates and the pressure on nursing and other salary costs being driven by the shortage of supply of these health care professionals, whereby EJGH had to make several market based adjustments to retain its nursing staff in 2002.

Financial Information Contact

The Organization's combined basic financial statements are designed to provide a general overview of the Organization's finances for all those with an interest in the Organization's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to East Jefferson General Hospital.

**East Jefferson General Hospital
and Related Organizations**

**Combined Balance Sheets
December 31, 2003 and 2002**

Assets	**2003**	2002
Current Assets:		
Cash and cash equivalents (Note 4)	**$ 8,309,445**	$ 4,164,406
Short-term investments (Note 4)	**47,933,801**	46,723,235
Receivables:		
Patients, net (Note 5)	**35,273,623**	38,056,330
Other	**2,387,832**	1,851,126
Estimated third-party payor settlements	**3,938,312**	-
Assets limited as to use, current portion (Note 4)	**9,992,745**	9,855,837
Inventories	**6,028,824**	4,586,746
Prepaid expenses	**4,927,828**	4,648,536
Total current assets	**118,792,410**	109,886,216
Noncurrent Assets:		
Assets limited as to use (Note 4):		
Under bond indenture	**75,537,988**	75,016,590
Board-designated for specific purposes	**174,154,484**	179,537,939
	249,692,472	254,554,529
Less portion required for current liabilities	**9,992,745**	9,855,837
	239,699,727	244,698,692
Capital assets, net (Notes 6, 7, and 12)	**188,620,192**	201,728,308
Debt issuance costs, net of accumulated amortization	**4,090,143**	4,422,006
Investment in associated companies (Note 11)	**1,939,923**	2,006,546
Other	**-**	226,979
Deferred compensation and life insurance (Note 8)	**3,153,555**	3,780,696
Other receivables	**1,085,343**	1,085,343
	438,588,883	457,948,570
	$ 557,381,293	$ 567,834,786

See Notes to Combined Basic Financial Statements.

Liabilities and Net Assets		**2003**		2002
Current Liabilities:				
Current maturities of long-term debt (Note 7)	$	**5,541,104**	$	5,271,536
Accounts payable		**7,803,248**		7,617,475
Estimated third-party payor settlements		**-**		2,185,049
Accrued expenses:				
Salaries and wages		**5,660,205**		3,599,512
Paid leave		**3,675,913**		3,237,982
Health insurance claims (Note 9)		**2,218,315**		2,004,905
Interest		**4,589,909**		4,704,409
Other		**2,470,243**		3,529,627
Total current liabilities		**31,958,937**		32,150,495
Noncurrent Liabilities:				
Deferred compensation and executive benefits (Note 8)		**2,131,910**		3,140,366
Retirement benefits (Note 8)		**25,081**		25,285
Estimated self-insurance reserves (Note 9)		**1,579,897**		2,151,397
Long-term debt, less current maturities (Note 7)		**227,996,327**		233,537,431
Minority interest in related organizations		**1,452,082**		1,856,308
Total noncurrent liabilities		**233,185,297**		240,710,787
Total liabilities		**265,144,234**		272,861,282
Commitments and Contingencies (Note 9)				
Net Assets:				
Invested in capital assets, net of related debt		**10,082,761**		17,919,341
Restricted under bond indenture		**21,002,237**		20,919,758
Unrestricted		**261,152,061**		256,134,405
		292,237,059		294,973,504
	$	**557,381,293**	$	567,834,786

East Jefferson General Hospital
and Related Organizations

Combined Statements of Revenue, Expenses, and Changes in Net Assets
Years Ended December 31, 2003 and 2002

	2003	2002
Operating revenue:		
Net patient service revenue (Note 2)	$ 245,998,038	$ 231,896,558
Other operating revenue	5,906,241	6,566,872
Total operating revenue	251,904,279	238,463,430
Operating expenses:		
Salaries, wages, and benefits	133,070,747	143,096,993
Purchased services and other	61,179,054	57,612,836
Supplies	35,843,320	33,923,749
Depreciation and amortization	20,267,029	19,669,421
Interest	12,451,857	12,473,695
Total operating expenses	262,812,007	266,776,694
Loss from operations	(10,907,728)	(28,313,264)
Nonoperating revenue (expenses):		
Investment earnings	7,331,158	19,039,372
Rental income from leases	1,682,263	1,446,872
Community benefit services	(426,282)	(514,569)
Gain on sale of property and equipment	150,597	63,525
Contributions	518,500	275,000
Equity in net income of associated companies (Note 11)	194,070	134,335
Grant revenue	590,831	-
Impairment loss (Note 12)	-	(4,601,776)
	10,041,137	15,842,759
Loss before transfers and minority interest	(866,591)	(12,470,505)
Transfers to Jefferson Parish (Note 3)	(1,064,214)	(1,126,333)
Minority interest in net income of related organizations	(805,640)	(482,579)
Change in net assets	(2,736,445)	(14,079,417)
Net assets:		
Beginning	294,973,504	309,052,921
Ending	$ 292,237,059	$ 294,973,504

See Notes to Combined Basic Financial Statements.

East Jefferson General Hospital
and Related Organizations

Combined Statements of Cash Flows
Years Ended December 31, 2003 and 2002

	2003	2002
Cash Flows from Operating Activities:		
Receipts from patients and third-party payors	$ 242,657,384	$ 237,180,799
Payments to suppliers	(98,557,971)	(97,316,355)
Payments to employees	(132,839,852)	(142,726,395)
Other receipts	5,369,535	5,960,699
Net cash provided by operating activities	16,629,096	3,098,748
Cash Flows from Capital and Related Financing Activities:		
Purchase of capital assets	(6,646,720)	(18,060,534)
Proceeds from disposals of capital assets	197,246	507,954
Principal payments on long-term debt	(5,271,536)	(5,015,533)
Interest payments on long-term debt	(12,724,762)	(12,961,812)
Net cash (used in) capital and related financing activities	(24,445,772)	(35,529,925)
Cash Flows from Non-Capital Financing Activities:		
Net (payments) of outstanding checks in excess of bank balance	-	(3,006,910)
Contributions received	518,500	275,000
Grants received	590,831	-
Transfers to Jefferson Parish	(1,064,214)	(1,126,333)
Payments for community benefit services	(426,282)	(514,569)
Proceeds from (distributions to) minority interest	(1,209,866)	1,336,862
Net cash (used in) non-capital financing activities	(1,591,031)	(3,035,950)
Cash Flows from Investing Activities:		
Investment earnings	11,430,859	13,061,486
Purchase of investments	(2,334,713,536)	(531,939,440)
Proceeds from sales and maturities of investments	2,334,265,326	556,466,398
Distributions from associated companies	260,693	109,224
Net increase (decrease) in deferred compensation, life insurance, and other	627,141	(830,949)
Rental income	1,682,263	1,446,872
Net cash provided by investing activities	13,552,746	38,313,591
Increase in cash and cash equivalents	4,145,039	2,846,464
Cash and cash equivalents:		
Beginning	4,164,406	1,317,942
Ending	$ 8,309,445	$ 4,164,406

(Continued)

East Jefferson General Hospital
and Related Organizations

Combined Statements of Cash Flows (Continued)
Years Ended December 31, 2003 and 2002

	2003	2002
Reconciliation of operating loss to net cash provided by operating activities:		
Cash Flows from Operating Activities:		
(Loss) from operations	**$ (10,907,728)**	$ (28,313,264)
Adjustments to reconcile (loss) from operations to net cash provided by operating activities:		
Depreciation and amortization	**20,267,029**	19,669,421
Interest expense	**12,451,857**	12,473,695
(Increase) decrease in:		
Patient receivables	**2,782,707**	6,377,702
Other receivables	**(536,706)**	(606,173)
Inventories	**(1,442,078)**	(401,328)
Prepaid expenses	**(279,292)**	697,568
Increase (decrease) in:		
Accounts payable	**185,773**	(4,401,448)
Third-party payor settlements	**(6,123,361)**	(1,093,461)
Accrued expenses	**1,811,055**	254,962
Deferred compensation and executive benefits, retirement benefits, and self-insurance reserves	**(1,580,160)**	(1,558,926)
Net cash provided by operating activities	**$ 16,629,096**	$ 3,098,748
Schedule of Noncash Investing Activities, increase (decrease) in fair value of investments	**$ (7,137,632)**	$ 804,681
Schedule of Noncash Capital and Related Financing Activities, capital asset transferred due to impairment of direct financing lease	**-**	4,430,000

See Notes to Combined Basic Financial Statements.

Note 1. Nature of Business and Significant Accounting Policies

Nature of Business:

The combined basic financial statements include the accounts of the following entities:

East Jefferson General Hospital (Hospital) is organized as Jefferson Parish Hospital Service District No. 2 by the Parish Council of Jefferson Parish, Louisiana (Parish) under provisions of the Jefferson Parish Charter and of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950 and is exempt from federal and state income taxes. The Hospital is a component unit of Jefferson Parish, Louisiana. The Hospital operates an acute care hospital and physician practices and owns certain medical office buildings.

PET Scan Center of East Jefferson, LLC (PET Scan) was formed in 2002 and shall continue perpetually. PET Scan operates a PET Scan facility. The Hospital has a 55.5% and 54.0% ownership interest in PET Scan as of December 31, 2003 and 2002, respectively.

East Jefferson Physician Network, LLC (EJPN, LLC) was formed in 1996 and shall continue perpetually. EJPN, LLC was used to acquire several physician practices. The Hospital has a 95% ownership interest in EJPN, LLC as of December 31, 2003 and 2002.

The Hospital, PET Scan, and EJPN, LLC are collectively referred to as the Organization. There are no other organizations or agencies whose financial statements should be combined and presented with these combined basic financial statements.

Significant accounting policies:

Principles of combination: The accompanying combined basic financial statements include the accounts of the Hospital, PET Scan, and EJPN, LLC. All significant intercompany accounts and transactions have been eliminated in combination.

Accrual basis of accounting: The accrual basis of accounting is used by the Organization. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when the liability has been incurred. Under this basis of accounting, all assets and liabilities associated with the operation of the Organization are included in the combined balance sheets.

Accounting standards: The Organization has elected to apply all applicable Governmental Accounting Standards Board (GASB) Pronouncements as well as the following pronouncements issued before and after November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs).

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

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Cash and cash equivalents: Cash and cash equivalents include temporary cash investments whose use is not limited. The temporary cash investments have original maturities of three months or less at date of issuance. Certain temporary investments internally designated as long-term investments are excluded from cash and cash equivalents.

Patient receivables: Patient receivables where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Patient receivables due directly from the patients, net of any third-party payor responsibility, are carried at the original charge for the service provided less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Organization does not charge interest on patient receivables. Patient receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received. Provision for bad debts was $23,494,316 and $22,775,561 for the years ended December 31, 2003 and 2002, respectively.

Receivables or payables related to estimated settlements on various risk contracts that the Hospital participates in are reported as estimated third-party payor receivables or payables.

Inventories: Inventories, which consist primarily of drugs and supplies, are valued at the lower of cost (first-in, first-out method) or market.

Assets limited as to use and investments: Assets limited as to use include assets set aside by the Board of Directors for retirement of long-term debt and future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes and assets held by trustees under bond indenture agreements.

Investments, including assets limited as to use, are recorded at fair value in accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investments in equity securities with readily determinable fair values and all investments in debt securities, including those classified as assets limited as to use, are measured at fair value in the balance sheets. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investment earnings, including realized gains and losses on investments, interest and dividends, and changes in unrealized gains and losses are included in nonoperating income.

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 limited as to use under bond indentures. Interest earned on the investments held in trust is retained in the funds and used for the purposes described in the respective bond ordinances.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Investments in associated companies are accounted for by the equity method of accounting under which the Organization's share of the net income of the associated companies is recognized as income in the Organization's combined statements of revenue, expenses, and changes in net assets and are added to the investment account. Dividends and distributions received from the associated companies are treated as a reduction of the investment account. The Organization has interests in a company that operates a laundry service and in a company that owns a medical office building.

Capital assets: Capital assets are carried at cost or, if donated, at fair value at date of donation. Depreciation is computed by the straight-line method over the assets' estimated useful lives ranging from three to forty years. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets and is depreciated over the estimated useful lives of the constructed assets.

Interest capitalized on construction was approximately $158,000 and $380,000 during the years ended December 31, 2003 and 2002, respectively.

Debt issuance costs: Debt issuance costs are being amortized over the term the related debt is outstanding.

Fair value of financial instruments: Financial instruments are described as cash or contractual obligations or rights to pay or to receive cash. The fair value for certain financial instruments approximates the carrying value because of the short-term maturity of these instruments which include cash and cash equivalents, receivables, accounts payable, accrued liabilities, estimated third-party payor settlements, and other current liabilities. The Organization's investments and assets limited as to use are carried at fair value on the balance sheets. Based on borrowing rates currently available to the Organization with similar terms and maturities, the fair value of the long-term debt, excluding capital lease obligations, approximates $225,714,000 and $230,715,000 as of December 31, 2003 and 2002, respectively.

Net patient service revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue is reported net of provision for bad debts.

Operating income: The Organization distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from the primary purpose of the Organization, which is to provide medical services to the region. Operating revenue consists of net patient services, cafeteria and special meals, Wellness Center membership, and other miscellaneous services. Operating expenses consist of salaries and benefits, purchased services, supplies, depreciation and amortization, and interest. All revenue and expenses not meeting these criteria are considered nonoperating.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Net assets: Net asset classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted – This component of net assets consists of constraints placed on net assets through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt," above.

Charity care: The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Gifts, grants, and bequests: Gifts, grants, and bequests not designated by donors for specific purposes are reported as nonoperating revenue regardless of the use for which they might be designated by the Board of Directors.

Board of Directors: Members of the Hospital's Board of Directors receive no compensation or per diem.

Reclassifications: Certain items on the combined statement of revenue, expenses, and changes in net assets for the year ended December 31, 2002 have been reclassified to be consistent with classifications adopted as of December 31, 2003. The reclassifications had no effect on the change in net assets.

Note 2. Net Patient Service Revenue

Approximately 87% and 86% of the Hospital's net patient service revenue for the years ended December 31, 2003 and 2002, respectively, is earned under agreements with third-party payors. These agreements with third-party payors provide for payments to the Hospital at amounts different from its established rates. These third-party payors include: the Medicare and Medicaid programs, health maintenance organizations, and various commercial insurance and preferred provider organizations. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Hospital is paid for inpatient acute care services rendered to Medicare program beneficiaries under prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The prospectively determined classification of patients and the appropriateness of the patients' admissions are subject to validation reviews by a Medicare peer review organization which is under contract with the Hospital to perform such reviews.

Outpatient services were paid via cost reimbursement methodologies, fee schedule limitations, or cost/fee blending methodologies before August 1, 2000. After August 1, 2000, cost based and cost/fee blend reimbursed services are paid via the outpatient prospective payment system. Under this system most outpatient services are paid at predetermined outpatient rates, subject to certain stop-loss provisions referred to by Medicare as the transitional corridor. The transitional corridor will limit potential reductions in reimbursement caused by the implementation of the outpatient prospective payment system through 2003. Cost reimbursed outpatient services were paid at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. Outpatient services subject to the outpatient prospective payment system are not subject to cost report settlement with several exceptions, and without regard to the transitional corridor.

The Hospital's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through December 31, 1998.

Medicaid: Inpatient services rendered to Medicaid program beneficiaries are reimbursed based upon prospectively determined rates. The prospectively determined rates are not subject to retroactive adjustment. Outpatient services are reimbursed based on cost reimbursement and fee schedule limitations. The cost based rates are subject to retroactive adjustment.

The Hospital's Medicaid cost reports have been audited and finalized through December 31, 1998.

Other agreements: 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.

Note 2. Net Patient Service Revenue (Continued)

A summary of the Organization's net patient revenue for the years ended December 31, 2003 and 2002 is as follows:

	2003	2002
Gross patient service revenue	$ 674,044,494	$ 614,754,401
Less discounts, allowances, and estimated contractual adjustments under third-party reimbursement programs	404,552,140	360,082,282
Less provision for bad debts	23,494,316	22,775,561
	$ 245,998,038	$ 231,896,558

Contractual adjustment expense for the year ended December 31, 2003 includes the effects of changes in the estimate of liabilities due to Medicare. The effect of this change in estimate for the Medicare liability was a reduction in contractual adjustment expense of approximately $1,642,000 for the year ended December 31, 2003 and is primarily related to the recognition of disproportionate share reimbursement.

Note 3. Charity Care and Community Service

The Organization maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and the estimated cost of those services and supplies. The amount of charges foregone, based on established rates during the years ended December 31, 2003 and 2002, was approximately $3,885,000 and $3,738,000, respectively.

Although not accounted for as charity care, the Organization considers the contractual adjustment expense related to the Medicaid services as charity care. Contractual adjustment expense related to the Medicaid services performed was approximately $32,116,000 and $27,629,000 for the years ended December 31, 2003 and 2002, respectively.

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

The Organization transferred $1,000,000 in 2003 and 2002 to the Parish to fund a medical facility at the Parish prison; additional transfers of $64,214 and $126,333 for the years ended December 31, 2003 and 2002, respectively, were made to fund other Parish programs. These amounts have been recorded in the accompanying combined basic financial statements as transfers.

Note 4. Cash and Investments

Louisiana state statutes authorize the Organization 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 Organization 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 Organization's carrying amount of cash and deposits, including $125,000 of certificates of deposits, was $8,434,445 and the bank balance was $11,810,959 as of December 31, 2003. The bank balances of deposits as of December 31, 2003 were entirely covered by insurance or collateral held by financial institutions in the Organization's name.

Note 4. Cash and Investments (Continued)

The Organization's cash, cash equivalents, and investment balances as of December 31, 2003 and 2002 consist of the following:

	2003	2002
Cash and cash equivalents	$ 8,309,445	$ 4,164,406
Money market mutual accounts	9,930,678	10,456,963
U.S. government obligations	233,034,844	236,598,969
Certificates of deposit, with maturities of more than three months when purchased	125,000	125,000
Escrow reinvestment agreement	54,535,751	54,096,832
	$ 305,935,718	$ 305,442,170

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

	2003	2002
Current assets:		
Cash and cash equivalents	$ 8,309,445	$ 4,164,406
Short-term investments	47,933,801	46,723,235
Assets limited as to use	249,692,472	254,554,529
	$ 305,935,718	$ 305,442,170

The Organization's investments are categorized as follows to give an indication of the level of risk assumed by the Organization: (1) insured or registered, or the securities are held by the Organization or its agent in the Organization's name; (2) uninsured and unregistered with the securities held by the counterparty's trust department or agent in the Organization's name; and (3) uninsured and unregistered with the securities held by the counterparty or by its trust department or agent, but not in the Organization's name. The Organization also has invested in an escrow reinvestment agreement and money market mutual accounts. These investments are not subject to risk categorization since they are not evidenced by securities, but are owned as a divided beneficial interest on the assets of the related investment pools. The fair value of the position in the external investment pool is the same as the value of the pool shares.

As of December 31, 2003 the Organization's investments, by category of risk, were as follows:

	Credit Risk Category			Total Fair
	(1)	(2)	(3)	Value
Securities type:				
U.S. government obligations	$ -	$ 233,034,844	$ -	$ 233,034,844
Investments not subject to categorization:				
Escrow reinvestment agreement				54,535,751
Money market funds				9,930,678
				$ 297,501,273

The level of risk or type of investments for the Organization did not vary substantially during the year from those at year-end.

Note 5. Composition of Patient Receivables

Patient receivables as of December 31, 2003 and 2002 consist of the following:

	2003	2002
Patients	$ 99,909,589	$ 104,884,041
Less estimated third-party contractual adjustments	46,554,041	47,077,572
Less allowance for doubtful accounts	18,081,925	19,750,139
	$ 35,273,623	$ 38,056,330

Note 6. Capital Assets

Capital assets activity as of and for the years ended December 31, 2003 and 2002 is as follows:

	December 31, 2002	Additions	Transfers and Disposals	December 31, 2003
Capital assets, not being depreciated:				
Land	$ 10,718,178	$ -	$ -	$ 10,718,178
Construction in progress	2,878,453	356,942	-	3,235,395
Total capital assets, not being depreciated	13,596,631	356,942	-	13,953,573
Capital assets, being depreciated:				
Land improvements	5,759,631	1,987	-	5,761,618
Buildings	202,497,617	1,779,372	(142,194)	204,134,795
Fixed equipment	65,548,089	30,077	(426,302)	65,151,864
Major movable equipment	122,698,515	4,467,475	(855,970)	126,310,020
Minor equipment	2,486,600	10,867	(731)	2,496,736
Total capital assets, being depreciated	398,990,452	6,289,778	(1,425,197)	403,855,033
Less accumulated depreciation for:				
Land improvements	3,166,024	293,951	-	3,459,975
Buildings	70,759,027	7,046,152	(116,813)	77,688,366
Fixed equipment	59,226,143	1,563,422	(426,302)	60,363,263
Major movable equipment	75,269,329	10,775,105	(834,702)	85,209,732
Minor equipment	2,438,252	29,557	(731)	2,467,078
Total accumulated depreciation	210,858,775	19,708,187	(1,378,548)	229,188,414
Total capital assets, being depreciated, net	188,131,677	(13,418,409)	(46,649)	174,666,619
Organization capital assets, net	$ 201,728,308	$ (13,061,467)	$ (46,649)	$ 188,620,192

Note 6. Capital Assets (Continued)

	December 31, 2001	Additions	Transfers and Disposals	December 31, 2002
Capital assets, not being depreciated:				
Land	$ 10,718,178	$ -	$ -	$ 10,718,178
Construction in progress	7,999,951	(5,121,498)	-	2,878,453
Total capital assets, not being depreciated	18,718,129	(5,121,498)	-	13,596,631
Capital assets, being depreciated:				
Land improvements	5,325,406	434,225	-	5,759,631
Buildings	187,767,492	14,905,125	(175,000)	202,497,617
Fixed equipment	65,260,625	335,677	(48,213)	65,548,089
Major movable equipment	112,529,795	11,913,126	(1,744,406)	122,698,515
Minor equipment	2,462,721	23,879	-	2,486,600
Total capital assets, being depreciated	373,346,039	27,612,032	(1,967,619)	398,990,452
Less accumulated depreciation for:				
Land improvements	2,895,527	270,497	-	3,166,024
Buildings	64,068,225	6,832,260	(141,458)	70,759,027
Fixed equipment	57,492,303	1,782,052	(48,212)	59,226,143
Major movable equipment	66,291,448	10,311,401	(1,333,520)	75,269,329
Minor equipment	2,374,138	64,114	-	2,438,252
Total accumulated depreciation	193,121,641	19,260,324	(1,523,190)	210,858,775
Total capital assets, being depreciated, net	180,224,398	8,351,708	(444,429)	188,131,677
Organization capital assets, net	$ 198,942,527	$ 3,230,210	$ (444,429)	$ 201,728,308

Note 7. Long-Term Debt

Long-term debt as of December 31, 2003 and 2002 consists of:

	2003	2002
Hospital Revenue Bonds, Series 1998 (A) (D)	$ 120,195,000	$ 122,645,000
Hospital Revenue Refunding Bonds, Series 1993 (B) (D)	47,795,000	50,265,000
Customized Purchase Hospital Revenue Bonds, Series 1985 (C) (D)	55,000,000	55,000,000
Capital lease obligation, MRI (E)	4,382,947	4,502,755
Capital lease obligation, parking garage (F)	6,164,484	6,396,212
	233,537,431	238,808,967
Less current maturities	5,541,104	5,271,536
	$ 227,996,327	$ 233,537,431

(A) The Hospital issued $125,000,000 of Hospital Revenue Bonds, Series 1998. The proceeds of these bonds were used for capital improvements and paying interest and issuance costs incurred. The Series 1998 Bonds bear interest at rates ranging from 4% to 5.25% payable semi-annually. Annual principal payments are due in amounts ranging from $2,355,000 to $8,130,000 through July 2028.

(B) The Hospital issued $64,575,000 of Hospital Revenue Refunding Bonds, Series 1993. The proceeds of these bonds were used to advance refund its Hospital Revenue Refunding Bonds, Series 1986, and for paying bond insurance and issuance costs incurred. The Series 1993 Bonds bear interest at rates ranging from 5% to 5.75% payable semi-annually. Annual principal payments are due in amounts ranging from $2,125,000 to $5,020,000 through July 2016.

(C) The Hospital issued $55,000,000 of Customized Purchase Hospital Revenue Bonds, Series 1985. The Series 1985 Bonds bear interest at a variable rate which was 5.25% as of December 31, 2003. The entire principal balance is due December 2005.

(D) The Series 1998, Series 1993, and Series 1985 Bonds grant a security interest in all revenue either accrued or received in connection with operations of the Hospital. The terms of the trust indentures require the Hospital to comply with certain covenants. The covenants provide for restrictions as to financial reporting and require the Hospital to maintain certain financial ratios, the most restrictive of which is the maintenance of a specified debt service coverage ratio.

(E) The Hospital has entered into a capital lease agreement with a medical partnership for the purpose of constructing a medical building used to house magnetic resonance imaging unit and radiation therapy equipment. The medical building and equipment revert to the Hospital upon termination of the lease. The lease requires monthly base rental payments of approximately $47,000 and minimum monthly operating expense payments of approximately $22,000 through March 2017. The base rental payments are subject to a 1% annual cumulative escalation clause. The lease is collateralized by the building and equipment with an amortized cost of approximately $2,740,000 as of December 31, 2003.

(F) The Hospital has entered into a capital lease agreement with East Jefferson General Hospital Foundation for the purpose of constructing a parking garage. The parking garage reverts to the Hospital upon termination of the lease. The lease requires monthly base rental payments of approximately $65,000 and minimum monthly operating expense payments of approximately $15,000 through May 2017. The lease is collateralized by the parking garage with an amortized cost of approximately $3,700,000 as of December 31, 2003.

Note 7. Long-Term Debt (Continued)

Long-term debt activity as of and for the years ended December 31, 2003 and 2002 is as follows:

	December 31, 2002	Borrowings	Payments	December 31, 2003	Due Within One Year
Hospital Revenue Bonds, Series 1998	$ 122,645,000	$ -	$ (2,450,000)	$ 120,195,000	$ 2,550,000
Hospital Revenue Refunding Bonds, Series 1993	50,265,000	-	(2,470,000)	47,795,000	2,600,000
Customized Purchase Hospital Revenue Bonds, Series 1985	55,000,000	-	-	55,000,000	-
Capital lease obligation, MRI	4,502,755	-	(119,808)	4,382,947	138,266
Capital lease obligation, parking garage	6,396,212	-	(231,728)	6,164,484	252,838
	$ 238,808,967	$ -	$ (5,271,536)	$ 233,537,431	$ 5,541,104

	December 31, 2001	Borrowings	Payments	December 31, 2002	Due Within One Year
Hospital Revenue Bonds, Series 1998	$ 125,000,000	$ -	$ (2,355,000)	$ 122,645,000	$ 2,450,000
Hospital Revenue Refunding Bonds, Series 1993	52,610,000	-	(2,345,000)	50,265,000	2,470,000
Customized Purchase Hospital Revenue Bonds, Series 1985	55,000,000	-	-	55,000,000	-
Capital lease obligation, MRI	4,605,906	-	(103,151)	4,502,755	119,808
Capital lease obligation, parking garage	6,608,594	-	(212,382)	6,396,212	231,728
	$ 243,824,500	$ -	$ (5,015,533)	$ 238,808,967	$ 5,271,536

The aggregate principal and interest maturities, including capital leases, of long-term debt as of December 31, 2003 are as follows:

	Principal	Interest
Year ending December 31:		
2004	$ 5,541,104	$ 12,547,641
2005	60,824,586	12,264,862
2006	6,157,369	9,052,140
2007	6,494,873	8,719,179
2008	6,862,562	8,354,116
2009 to 2013	40,783,263	35,410,102
2014 to 2018	40,973,674	22,368,287
2019 to 2023	28,950,000	13,721,250
2024 to 2028	36,950,000	5,723,000
	$ 233,537,431	$ 128,160,577

Note 7. Long-Term Debt (Continued)

The future minimum rental commitments payable as of December 31, 2003 on capital lease obligations are as follows:

Year ending December 31:	
2004	$ 1,791,399
2005	1,797,102
2006	1,802,863
2007	1,806,681
2008	1,812,557
2009 to 2013	9,163,006
2014 to 2017	6,200,087
Total minimum lease payments	24,373,695
Less amount representing executory costs (i.e., operating expenses) included in total minimum lease payments	5,844,260
Net minimum lease payments	18,529,435
Less amount representing interest	7,982,004
Present value of net minimum lease payments	$ 10,547,431

Note 8. Retirement and Benefit Plans

Description of pension plan:

The Hospital contributes to the Retirement Plan for Employees of East Jefferson General Hospital (Plan) which is a single-employer, noncontributory defined benefit public employee retirement system (PERS). The Plan is sponsored by the Hospital to provide retirement benefits as well as death benefits. All full-time employees at least 21 years of age with at least one year of credited service are eligible to participate in the Plan. Plan benefits vest after five years of credited service. Employees who retire at or after age 62 with 10 years of credited service are entitled to an annual retirement benefit payable monthly for life. For the years ended December 31, 2003 and 2002, the Hospital's total payroll for all employees was approximately $108,901,000 and $113,583,000, respectively, and the Hospital's total covered payroll (for pension plan participants) was approximately $80,774,000 and $82,386,000, respectively. 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.

Note 8. Retirement and Benefit Plans (Continued)

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's assets are held in various investments, 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 net pension obligation in the following table is a standardized disclosure measure of the present value of pension benefits, adjusted beginning January 1, 2001 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.

Plan members are not required to contribute a portion of their annual salary. The Hospital is required to contribute at an actuarially determined rate which was 3.7% and 4.2% for the years ended December 31, 2003 and 2002, respectively.

Significant actuarial assumptions used in 2003 and 2002 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 seniority/merit, which includes inflation at 2.5%, of 5% per year compounded annually. There has been no cost of living adjustment. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a four-year period. The unfunded actuarial accrued liability is being amortized as an open level percentage of payroll. The remaining amortization period at a January 1, 2004 actuarial valuation date was 30 years.

Note 8. Retirement and Benefit Plans (Continued)

Annual pension costs, net pension obligation, and the accrual for retirement benefits for 2003 and 2002 are as follows:

	2003	2002
Annual required contribution for current year	$ 3,476,412	$ 2,776,099
Interest on net pension obligation	2,149	2,167
Adjustment to annual required contribution	(2,353)	(2,372)
Annual pension costs	3,476,208	2,775,894
Contribution made	3,476,412	2,776,099
Decrease in net pension obligation	(204)	(205)
Net pension obligation, beginning of year	25,285	25,490
Net pension obligation, ending of year	$ 25,081	$ 25,285

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 over funded amount from prior years over a ten-year period. The Hospital made contributions of approximately $3,476,000 and $2,776,000 for the years ended December 31, 2003 and 2002, respectively, and is fully funded according to Internal Revenue Service funding limitations. 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
12/31/01	$ 2,160,310	100%	$ 25,490
12/31/02	2,775,894	100	25,285
12/31/03	3,476,208	100	25,081

Note 8. Retirement and Benefit Plans (Continued)

Employee Savings Plan:

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

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

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

Employer contributions and employer paid Savings Plan expenses totaled $2,340,723 and $3,150,261 for the years ended December 31, 2003 and 2002, respectively.

Deferred compensation and executive benefits:

The Hospital provides a supplemental executive retirement plan (SERP) as well as a deferred compensation plan to certain key employees. No Hospital contributions were made to the plan in 2003 or 2002. Assets and liabilities associated with the deferred compensation plan were $929,998 and $1,913,606 as of December 31, 2003 and 2002, respectively. Liabilities associated with the SERP were $1,201,912 and $1,226,760 as of December 31, 2003 and 2002, respectively. These amounts are included in noncurrent assets and liabilities in the accompanying combined basic financial statements.

Note 9. Self-Insurance, Commitments, Contingent Liabilities, and Subsequent Event

Professional liability insurance:

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. Subsequent to December 31, 2003, the additional coverage has been changed for losses on claims in excess of $1,000,000. The following is a summary of estimated claims liability for the years ended December 31, 2003 and 2002. The Hospital has recorded the liability in noncurrent liabilities.

	2003	2002
Balance, beginning	$ 2,151,397	$ 1,451,397
Claims expense	(450,000)	1,131,864
Claims payment	(121,500)	(431,864)
Balance, ending	$ 1,579,897	$ 2,151,397

Self-insurance for health insurance:

The Hospital is self-insured for its employee health insurance plan. The self-insured claims are processed through a plan administrator. The Hospital is not insured under a stop-loss policy and is therefore fully self-insured. The following is a summary of estimated claims liability for the years ended December 31, 2003 and 2002. The Hospital has recorded a current liability for open claims and claims incurred but not reported.

	2003	2002
Balance, beginning	$ 2,004,905	$ 1,311,052
Claims expense	11,200,000	14,207,225
Claims payment	(10,986,590)	(13,513,372)
Balance, ending	$ 2,218,315	$ 2,004,905

Note 9. Self-Insurance, Commitments, Contingent Liabilities, and Subsequent Event (Continued)

Self-insurance for worker's compensation insurance:

The Hospital is self-insured for worker's compensation. The self-insured claims are processed through a plan administrator. The Hospital has purchased stop-loss insurance coverage for claims in excess of $150,000 per occurrence. The following is a summary of estimated claims liability for the years ended December 31, 2003 and 2002. The Hospital has recorded a current liability for open claims and claims incurred but not reported which is included in other accrued expenses.

	2003	2002
Balance, beginning	$ 486,198	$ 346,198
Claims expense	757,883	1,100,176
Claims payment	(666,682)	(960,176)
Balance, ending	$ 577,399	$ 486,198

Laws and regulations:

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. 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. These laws and regulations include, but are not limited to, accreditation, licensure, government health care 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 health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. While the Organization is subject to similar regulatory reviews, management believes the outcome of any such regulatory review will not have a material adverse effect on the Organization's financial position.

The Organization 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 Organization's financial position.

Employee theft:

In January 2003 management became aware of the existence of certain unauthorized transactions within the materials management department at the Hospital. The transactions are currently under investigation by the Hospital's management and the Jefferson Parish Sheriff's office. A Proof of Loss was filed with the Hospital's insurance company on March 18, 2003 and a recovery of $437,079 was received on February 25, 2004. The recovery amount has been included in other receivables and as a reduction to supplies expense in the accompanying 2003 combined basic financial statements.

Note 9. Self-Insurance, Commitments, and Contingent Liabilities (Continued)

Lease commitments:

The Organization leases property and various equipment under leases that expire at various dates through April 2008.

As of December 31, 2003, the total minimum rental commitment under operating lease agreements is approximately $6,275,000 which is due as follows:

Year ending December 31:	
2004	$ 2,014,000
2005	1,904,000
2006	1,659,000
2007	676,000
2008	22,000
	$ 6,275,000

Total rent expense for the above leases for the years ended December 31, 2003 and 2002 was approximately $2,078,000 and $2,189,000, respectively.

Professional services commitments:

The Organization has agreements for the outsourcing of its information technology department and for its emergency room coverage. These agreements expire in December 2008 and June 2007, respectively.

As of December 31, 2003, the total minimum commitment under these agreements is approximately $27,987,000 which is due as follows:

Year ending December 31:	
2004	$ 6,797,000
2005	6,346,000
2006	5,768,000
2007	4,516,000
2008	4,560,000
	$ 27,987,000

Total expense for the above agreements for the years ended December 31, 2003 and 2002 was approximately $4,290,000 and none, respectively.

Subsequent event commitment:

In January 2004 the Organization entered into an agreement for the purchase and implementation of a new software system and related equipment. This agreement extends through the year ending December 31, 2010 with a total commitment of $25,810,000.

Note 10. 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 as of December 31, 2003 and 2002 was as follows:

	2003	2002
Medicare	40.7%	42.8%
Medicaid	7.2	8.2
Managed care	26.0	28.0
Other third-party payors	15.6	10.4
Patients	10.5	10.6
	100.0%	100.0%

Note 11. Investment in Associated Companies

The Organization's investment in associated companies as of December 31, 2003 and 2002 consist of the following:

	2003	2002
Associated Hospital Services (laundry service)	$ 1,465,064	$ 1,398,454
Metairie Medical Office Limited Partnership (medical office building)	474,859	608,092
	$ 1,939,923	$ 2,006,546

The Organization's equity in net income of associated companies consists of the following:

	2003	2002
Associated Hospital Services	$ 66,610	$ 54,749
Metairie Medical Office Limited Partnership	127,460	79,586
	$ 194,070	$ 134,335

Note 12. Impairment Loss

The Organization purchased a medical office building and land for $12,680,000 in January 1990 which was then leased back to the seller for a period of 50 years. The lease for the medical office building was accounted for as an investment in a direct financing lease and the land portion of this transaction was accounted for as an operating lease.

During the year ended December 31, 2002, the lessee declared bankruptcy and vacated the building. The Hospital obtained a valuation of the building which was used to assist management in determining the estimated fair value of the medical office building. As a result of these events, the Organization recorded a noncash impairment loss of $4,601,776 which has been included in nonoperating expense in the accompanying combined statements of revenue, expenses, and changes in net assets during the year ended December 31, 2002. The $4,430,000 asset is included in capital assets on the accompanying combined balance sheets.

Note 13. Functional Expenses

The Organization provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2003 and 2002 are as follows:

	2003	2002
Program	$ 143,153,977	$ 145,748,157
General and administrative	119,658,030	121,028,537
	$ 262,812,007	$ 266,776,694

Note 14. Pending Pronouncements

Statement No. 39, *Determining Whether Certain Organizations are Component Units*, issued May 2002 will be effective for the Organization beginning with its year ending December 31, 2004. This Statement amends Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as a component unit based on the nature and significance of their relationship with the primary government.

Statement No. 40, *Deposit and Investment Risk Disclosures*, issued March 2003, will be effective for the Organization beginning with its year ending December 31, 2005. This Statement establishes and modifies disclosure requirements related to investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. This Statement also establishes and modifies disclosure requirements for deposit risks.

Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, will be effective for the City beginning with its year ending December 31, 2005. This Statement requires entities to report the effects of capital asset impairment in their financial statements when it occurs and requires all entities to account for insurance recoveries in the same manner.

The Organization's management has not yet determined the effect these Statements will have on the Organization's financial statements.

SUPPLEMENTARY INFORMATION

East Jefferson General Hospital
and Related Organizations

Required Retirement Plan Information
December 31, 2003

Schedule of Funding Progress		**2003**		2002		2001
Actuarial valuation date		**1/1/04**		1/1/03		1/1/02
Actuarial value of assets (AVA)	**$**	**32,338,260**	$	26,259,440	$	29,076,165
Actuarial accrued liability (AAL)	**$**	**46,598,037**	$	44,129,053	$	35,830,842
Unfunded AAL (UAAL)	**$**	**14,259,777**	$	17,869,613	$	6,754,677
Funded ratio		**69.4%**		59.5%		51.1%
Annual covered payroll	**$**	**80,774,461**	$	82,385,934	$	90,473,690
UAAL as % of payroll		**17.7%**		21.7%		7.5%

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

1. The valuation date is January 1, 2004.
2. The actuarial method used is unprojected unit credit.
3. The amortization method is a level payment open method. The remaining amortization period is 30 years.
4. The assets are shown at fair value.
5. Economic assumptions are as follows: investment rate of return of 8.5%, projected salary increases of 5.0%. These assumptions include an inflationary adjustment of 2.5% and no cost of living adjustment.

East Jefferson General Hospital and Related Organizations

Combining Balance Sheet December 31, 2003

Assets	EJGH	EJPN, LLC	PET Scan	Eliminations	Combined
Current Assets:					
Cash and cash equivalents	$ 7,966,908	$ 73,853	$ 268,684	$ -	$ 8,309,445
Short-term investments	47,933,801	-	-	-	47,933,801
Receivables:					
Patients, net	34,574,637	-	698,986	-	35,273,623
Other	2,493,130	133,565	-	(238,863)	2,387,832
Estimated third-party payor settlements	3,938,312	-	-	-	3,938,312
Assets limited as to use, current portion	9,992,745	-	-	-	9,992,745
Inventories	6,028,824	-	-	-	6,028,824
Prepaid expenses	4,923,837	-	3,991	-	4,927,828
Total current assets	117,852,194	207,418	971,661	(238,863)	118,792,410
Noncurrent Assets:					
Assets limited as to use:					
Under bond indenture	75,537,988	-	-	-	75,537,988
Board-designated for specific purposes	174,154,484	-	-	-	174,154,484
	249,692,472	-	-	-	249,692,472
Less portion required for current liabilities	9,992,745	-	-	-	9,992,745
	239,699,727	-	-	-	239,699,727
Capital assets, net	186,387,122	-	2,233,070	-	188,620,192
Debt issuance costs, net of accumulated amortization	4,090,143	-	-	-	4,090,143
Investment in related organizations and associated companies *	5,992,012	-	-	(4,052,089)	1,939,923
Deferred compensation and life insurance	3,153,555	-	-	-	3,153,555
Other receivables	1,085,343	-	-	-	1,085,343
Total noncurrent assets	440,407,902	-	2,233,070	(4,052,089)	438,588,883
	$ 558,260,096	$ 207,418	$ 3,204,731	$ (4,290,952)	$ 557,381,293

* EJGH carries its investment in EJPN, LLC at $2,353,466 as of December 31, 2003. This investment should be carried at $97,025. The effects of this investment have been properly eliminated in the combined balance sheet as of December 31, 2003.

Liabilities and Net Assets	EJGH	EJPN, LLC	PET Scan	Eliminations	Combined
Current Liabilities:					
Current maturities of long-term debt	$ 5,541,104	$ -	$ -	$ -	$ 5,541,104
Accounts payable	7,936,825	105,286	-	(238,863)	7,803,248
Accrued expenses:					
Salaries and wages	5,660,205	-	-	-	5,660,205
Paid leave	3,675,913	-	-	-	3,675,913
Health insurance claims	2,218,315	-	-	-	2,218,315
Interest	4,589,909	-	-	-	4,589,909
Other	2,411,690	-	58,553	-	2,470,243
Total current liabilities	32,033,961	105,286	58,553	(238,863)	31,958,937
Noncurrent Liabilities:					
Deferred compensation and executive benefits	2,131,910	-	-	-	2,131,910
Retirement benefits	25,081	-	-	-	25,081
Estimated self-insurance reserves	1,579,897	-	-	-	1,579,897
Long-term debt, less current maturities	227,996,327	-	-	-	227,996,327
Minority interest in related organizations	-	-	-	1,452,082	1,452,082
Total noncurrent liabilities	231,733,215	-	-	1,452,082	233,185,297
Total liabilities	263,767,176	105,286	58,553	1,213,219	265,144,234
Net Assets:					
Invested in capital assets, net of related debt	7,849,691	-	2,233,070	-	10,082,761
Restricted under bond indenture	21,002,237	-	-	-	21,002,237
Unrestricted *	265,640,992	102,132	913,108	(5,504,171)	261,152,061
Total net assets	294,492,920	102,132	3,146,178	(5,504,171)	292,237,059
	$ 558,260,096	$ 207,418	$ 3,204,731	$ (4,290,952)	$ 557,381,293

East Jefferson General Hospital
and Related Organizations

Combining Balance Sheet
December 31, 2002

Assets	EJGH	EJPN, LLC	PET Scan	Eliminations	Combined
Current Assets:					
Cash and cash equivalents	$ 3,080,656	$ 77,366	$ 1,006,384	$ -	$ 4,164,406
Short-term investments	46,723,235	-	-	-	46,723,235
Receivables:					
Patients, net	37,302,767	-	753,563	-	38,056,330
Other	1,942,913	107,290	-	(199,077)	1,851,126
Assets limited as to use, current portion	9,855,837	-	-	-	9,855,837
Inventories	4,586,746	-	-	-	4,586,746
Prepaid expenses	4,648,536	-	-	-	4,648,536
Total current assets	108,140,690	184,656	1,759,947	(199,077)	109,886,216
Noncurrent Assets:					
Assets limited as to use:					
Under bond indenture	75,016,590	-	-	-	75,016,590
Board-designated for specific purposes	179,537,939	-	-	-	179,537,939
	254,554,529	-	-	-	254,554,529
Less portion required for current liabilities	9,855,837	-	-	-	9,855,837
	244,698,692	-	-	-	244,698,692
Capital assets, net	199,224,650	2,686	2,500,972	-	201,728,308
Debt issuance costs, net of accumulated amortization	4,422,006	-	-	-	4,422,006
Investment in related organizations and associated companies *	6,945,077	-	-	(4,938,531)	2,006,546
Other	-	226,979	-	-	226,979
Deferred compensation and life insurance	3,780,696	-	-	-	3,780,696
Other receivables	1,085,343	-	-	-	1,085,343
Total noncurrent assets	460,156,464	229,665	2,500,972	(4,938,531)	457,948,570
	$ 568,297,154	$ 414,321	$ 4,260,919	$ (5,137,608)	$ 567,834,786

* EJGH carries its investment in EJPN, LLC at $2,643,473 as of December 31, 2002. This investment should be carried at $306,407. The effects of this investment have been properly eliminated in the combined balance sheet as of December 31, 2002.

Liabilities and Net Assets	EJGH	EJPN, LLC	PET Scan	Eliminations	Combined
Current Liabilities:					
Current maturities of long-term debt	$ 5,271,536	$ -	$ -	$ -	$ 5,271,536
Accounts payable	7,724,765	91,787	-	(199,077)	7,617,475
Estimated third-party payor settlements	2,185,049	-	-	-	2,185,049
Accrued expenses:					
Salaries and wages	3,599,512	-	-	-	3,599,512
Paid leave	3,237,982	-	-	-	3,237,982
Health insurance claims	2,004,905	-	-	-	2,004,905
Interest	4,704,409	-	-	-	4,704,409
Other	3,403,947	-	125,680	-	3,529,627
Total current liabilities	32,132,105	91,787	125,680	(199,077)	32,150,495
Noncurrent Liabilities:					
Deferred compensation and executive benefits	3,140,366	-	-	-	3,140,366
Retirement benefits	25,285	-	-	-	25,285
Estimated self-insurance reserves	2,151,397	-	-	-	2,151,397
Long-term debt, less current maturities	233,537,431	-	-	-	233,537,431
Minority interest in related organizations	-	-	-	1,856,308	1,856,308
Total noncurrent liabilities	238,854,479	-	-	1,856,308	240,710,787
Total liabilities	270,986,584	91,787	125,680	1,657,231	272,861,282
Net Assets:					
Invested in capital assets, net of related debt	15,415,683	2,686	2,500,972	-	17,919,341
Restricted under bond indenture	20,919,758	-	-	-	20,919,758
Unrestricted *	260,975,129	319,848	1,634,267	(6,794,839)	256,134,405
Total net assets	297,310,570	322,534	4,135,239	(6,794,839)	294,973,504
	$ 568,297,154	$ 414,321	$ 4,260,919	$ (5,137,608)	$ 567,834,786

East Jefferson General Hospital
and Related Organizations

Combining Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended December 31, 2003

	EJGH	EJPN, LLC	PET Scan	Eliminations	Combined
Operating revenue:					
Net patient service revenue	$ 242,527,823	$ -	$ 3,470,215	$ -	$ 245,998,038
Other operating revenue	5,906,241	-	-	-	5,906,241
Total operating revenue	248,434,064	-	3,470,215	-	251,904,279
Operating expenses:					
Salaries, wages, and benefits	132,897,778	-	172,969	-	133,070,747
Purchased services and other	59,912,162	17,309	1,275,791	(26,208)	61,179,054
Supplies	35,843,320	-	-	-	35,843,320
Depreciation and amortization	20,065,270	229,665	262,101	(290,007)	20,267,029
Interest	12,451,857	-	-	-	12,451,857
Total operating expenses	261,170,387	246,974	1,710,861	(316,215)	262,812,007
Income (loss) from operations	(12,736,323)	(246,974)	1,759,354	316,215	(10,907,728)
Nonoperating revenue (expenses):					
Investment earnings	7,329,209	364	1,585	-	7,331,158
Rental income from leases	1,682,263	26,208	-	(26,208)	1,682,263
Community benefit services	(426,282)	-	-	-	(426,282)
Gain on sale of property and equipment	150,597	-	-	-	150,597
Contributions	518,500	-	-	-	518,500
Equity in net income of related organizations and associated companies	1,137,769	-	-	(943,699)	194,070
Grant revenue	590,831	-	-	-	590,831
	10,982,887	26,572	1,585	(969,907)	10,041,137
Income (loss) before capital contribution (distribution), transfers, and minority interest	(1,753,436)	(220,402)	1,760,939	(653,692)	(866,591)
Capital contribution (distribution)	-	-	(2,750,000)	2,750,000	-
Transfers to Jefferson Parish	(1,064,214)	-	-	-	(1,064,214)
Minority interest in net income of related organizations	-	-	-	(805,640)	(805,640)
Change in net assets	(2,817,650)	(220,402)	(989,061)	1,290,668	(2,736,445)
Net assets:					
Beginning	297,310,570	322,534	4,135,239	(6,794,839)	294,973,504
Ending	$ 294,492,920	$ 102,132	$ 3,146,178	$ (5,504,171)	$ 292,237,059

East Jefferson General Hospital and Related Organizations

Combining Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended December 31, 2002

	EJGH	EJPN, LLC	PET Scan	Eliminations	Combined
Operating revenue:					
Net patient service revenue	$ 229,786,523	$ -	$ 2,110,035	$ -	$ 231,896,558
Other operating revenue	6,566,057	815	-	-	6,566,872
Total operating revenue	236,352,580	815	2,110,035	-	238,463,430
Operating expenses:					
Salaries, wages, and benefits	143,017,249	-	79,744	-	143,096,993
Purchased services and other	56,903,312	21,224	714,508	(26,208)	57,612,836
Supplies	33,923,749	-	-	-	33,923,749
Depreciation and amortization	19,796,515	420,609	182,194	(729,897)	19,669,421
Interest	12,473,695	-	-	-	12,473,695
Total operating expenses	266,114,520	441,833	976,446	(756,105)	266,776,694
Income (loss) from operations	(29,761,940)	(441,018)	1,133,589	756,105	(28,313,264)
Nonoperating revenue (expenses):					
Investment earnings	19,037,722	-	1,650	-	19,039,372
Rental income from leases	1,446,872	26,208	-	(26,208)	1,446,872
Community benefit services	(514,569)	-	-	-	(514,569)
Gain on sale of property and equipment	63,525	-	-	-	63,525
Contributions	275,000	-	-	-	275,000
Equity in net income of related organizations and associated companies	766,254	-	-	(631,919)	134,335
Impairment loss	(4,601,776)	-	-	-	(4,601,776)
	16,473,028	26,208	1,650	(658,127)	15,842,759
Income (loss) before capital contribution, transfers, and minority interest	(13,288,912)	(414,810)	1,135,239	97,978	(12,470,505)
Capital contribution	-	-	3,000,000	(3,000,000)	-
Transfers to Jefferson Parish	(1,126,333)	-	-	-	(1,126,333)
Minority interest in net income of related organizations	-	-	-	(482,579)	(482,579)
Change in net assets	(14,415,245)	(414,810)	4,135,239	(3,384,601)	(14,079,417)
Net assets:					
Beginning, as restated	311,725,815	737,344	-	(3,410,238)	309,052,921
Ending	$ 297,310,570	$ 322,534	$ 4,135,239	$ (6,794,839)	$ 294,973,504

East Jefferson General Hospital
and Related Organizations

Statements of Revenue, Expenses, and Changes in Net Assets Information (Hospital Only)
Years Ended December 31, 2003 and 2002

Gross Patient Service Revenue, Summary by Department	**2003 Inpatient**	**2003 Outpatient**	**2003 Total**
Routine care services:			
Medical and surgical	$ 62,328,383	$ 3,884,016	$ 66,212,399
Intensive care	15,759,122	420	15,759,542
Coronary care	4,287,402	-	4,287,402
Psychiatric care	5,150,300	472,326	5,622,626
Nursery	10,404,261	2,602	10,406,863
Rehabilitation	5,582,183	-	5,582,183
Skilled nursing facility	2,800,243	824	2,801,067
	106,311,894	4,360,188	110,672,082
Ancillary services:			
Ambulance	1,438,987	6,183,937	7,622,924
Anesthesiology	10,365,558	10,213,721	20,579,279
Blood bank	5,109,301	1,250,128	6,359,429
Cardiology	43,234,550	18,412,015	61,646,565
Central supply	11,374,784	2,939,708	14,314,492
Dialysis	2,356,048	47,437	2,403,485
Electoencephalography	246,835	209,821	456,656
Emergency services	7,329,936	18,648,422	25,978,358
Endoscopy	1,671,842	5,178,628	6,850,470
Labor and delivery	7,221,046	986,936	8,207,982
Laboratory	28,738,429	18,154,259	46,892,688
Magnetic resonance imaging	2,609,718	6,037,102	8,646,820
Operating and recovery	56,334,579	57,329,981	113,664,560
Outpatient screening of wellness	-	633,180	633,180
Pharmacy and IV solution	80,207,243	23,211,704	103,418,947
Physical therapy	9,163,725	3,116,910	12,280,635
Physician network revenue	-	20,979,933	20,979,933
Radiation therapy	945,638	11,380,678	12,326,316
Radiology	24,491,947	38,638,386	63,130,333
Respiratory care	19,698,519	3,006,942	22,705,461
Wound care center	14,190	1,776,748	1,790,938
	312,552,875	248,336,576	560,889,451
	$ 418,864,769	$ 252,696,764	671,561,533
Less charity care			3,884,962
Gross patient service revenue			667,676,571
Less discounts, allowances, and estimated contractual adjustments under third-party reimbursement programs			401,745,280
Less provision for bad debts			23,403,468
Net patient service revenue			$ 242,527,823

2002		
Inpatient	Outpatient	Total
$ 47,736,744	$ 3,342,775	$ 51,079,519
14,820,123	426	14,820,549
4,796,793	-	4,796,793
5,776,979	254,093	6,031,072
9,383,062	2,416	9,385,478
5,336,942	-	5,336,942
3,961,327	-	3,961,327
91,811,970	3,599,710	95,411,680
1,860,262	6,037,127	7,897,389
7,847,982	8,973,015	16,820,997
4,785,158	979,523	5,764,681
34,429,668	13,739,807	48,169,475
15,606,401	2,730,668	18,337,069
2,234,751	2,204	2,236,955
269,092	235,034	504,126
6,293,462	16,389,517	22,682,979
1,399,800	3,781,187	5,180,987
6,804,688	1,102,959	7,907,647
32,360,620	15,142,226	47,502,846
2,941,456	5,629,059	8,570,515
50,422,131	42,326,864	92,748,995
-	625,760	625,760
79,553,674	19,592,915	99,146,589
10,456,430	4,472,055	14,928,485
-	26,790,440	26,790,440
770,629	9,145,650	9,916,279
25,282,684	33,214,311	58,496,995
21,447,522	2,727,763	24,175,285
8,371	1,259,872	1,268,243
304,774,781	214,897,956	519,672,737
$ 396,586,751	$ 218,497,666	615,084,417
		3,738,117
		611,346,300
		358,972,607
		22,587,170
		$ 229,786,523

East Jefferson General Hospital
and Related Organizations

Statements of Revenue, Expenses, and Changes in Net Assets Information
(Hospital Only)
Years Ended December 31, 2003 and 2002

Other Revenue		2003		2002
Cafeteria	$	1,737,955	$	1,860,673
Educational fees		36,717		26,360
Special meals		808,190		1,372,270
Vending machines		372,718		490,714
LTAC services		671,974		581,636
Wellness Center membership fees		1,761,345		1,682,854
Elder Advantage fees		27,446		40,523
Miscellaneous		489,896		511,027
	$	5,906,241	$	6,566,057

Provision for Discounts, Allowances, and Estimated Contractual Adjustments under Third-Party Reimbursement Programs				
Medicare contractual adjustments	$	204,960,961	$	188,064,796
Medicaid contractual adjustments		32,115,711		27,628,733
Managed care discounts		164,306,770		142,885,629
Obstetric package discounts		361,838		393,449
	$	401,745,280	$	358,972,607

East Jefferson General Hospital
and Related Organizations

Statements of Revenue, Expenses, and Changes in Net Assets Information
(Hospital Only)
Years Ended December 31, 2003 and 2002

	2003			
Departmental Expenses	**Salaries, Wages and Benefits**	**Purchased Services and Other**	**Supplies**	**Total**
Routine services:				
Medical and surgical	$ 20,011,723	$ 1,098,765	$ 1,112,404	$ 22,222,892
Intensive care	4,474,198	245,114	256,260	4,975,572
Coronary care	1,360,709	98,040	66,285	1,525,034
Psychiatric care	1,366,642	187,618	24,947	1,579,207
Nursery	2,867,253	146,073	201,398	3,214,724
Nursing administration	175,457	5,428	18,479	199,364
Rehabilitation	1,337,075	200,150	74,796	1,612,021
Skilled nursing facility	939,035	65,985	59,240	1,064,260
	32,532,092	2,047,173	1,813,809	36,393,074
Ancillary services:				
Ambulance	2,354,513	45,744	249,349	2,649,606
Anesthesiology	108,795	2,699,049	800,524	3,608,368
Blood bank	632,541	203,460	1,141,935	1,977,936
Cardiology	2,927,930	67,378	7,087,381	10,082,689
Central supply	368,478	336,272	1,915,432	2,620,182
Dialysis	-	563,404	2,536	565,940
Electroencaphalography	54,599	1,209	6,827	62,635
Emergency services	4,059,497	237,944	410,231	4,707,672
Endoscopy	591,330	5,117	410,675	1,007,122
Labor and delivery	1,670,871	32,628	313,792	2,017,291
Laboratory	2,622,229	1,150,622	1,839,242	5,612,093
Magnetic resonance imaging	210,190	25,338	337,779	573,307
Operating and recovery	5,716,692	1,879,498	11,121,302	18,717,492
Occupational Medicine & Wellness Center	958,082	355,628	147,166	1,460,876
Pharmacy and IV solution	2,320,938	14,072,354	661,065	17,054,357
Physical therapy	2,294,393	43,823	61,419	2,399,635
Radiation therapy	704,812	229,537	135,948	1,070,297
Radiology	4,289,077	195,816	2,783,175	7,268,068
Respiratory care	3,106,498	347,601	397,817	3,851,916
Wound care center	335,184	32,352	87,766	455,302
	$ 35,326,649	$ 22,524,774	$ 29,911,361	$ 87,762,784

2002							
Salaries, Wages and Benefits		Purchased Services and Other		Supplies		Total	
$	18,395,218	$	1,512,906	$	1,345,315	$	21,253,439
	4,732,673		495,996		260,217		5,488,886
	1,474,584		166,175		87,873		1,728,632
	1,112,446		115,356		35,985		1,263,787
	2,816,888		129,170		203,245		3,149,303
	15,980		7,702		17,313		40,995
	1,247,372		188,806		89,779		1,525,957
	1,226,608		44,756		124,500		1,395,864
	31,021,769		2,660,867		2,164,227		35,846,863
	2,248,562		(10,366)		222,254		2,460,450
	67,335		2,002,232		752,837		2,822,404
	664,588		180,422		1,060,563		1,905,573
	2,804,477		42,221		5,431,242		8,277,940
	452,726		409,807		1,757,185		2,619,718
	-		585,735		(778)		584,957
	66,893		302		7,331		74,526
	4,110,752		(188,589)		519,241		4,441,404
	590,092		2,119		391,965		984,176
	1,626,767		5,945		360,614		1,993,326
	2,841,461		1,925,120		1,386,410		6,152,991
	257,449		1,205		202,797		461,451
	5,628,241		1,517,727		10,886,557		18,032,525
	1,060,079		281,076		176,109		1,517,264
	2,246,730		14,151,018		595,777		16,993,525
	2,615,260		25,407		88,086		2,728,753
	668,248		292,945		111,349		1,072,542
	4,129,716		712,982		2,497,334		7,340,032
	3,347,909		273,640		413,789		4,035,338
	322,959		33,213		77,709		433,881
$	35,750,244	$	22,244,161	$	26,938,371	$	84,932,776

(Continued)

East Jefferson General Hospital
and Related Organizations

Statements of Revenue, Expenses, and Changes in Net Assets Information
(Hospital Only) (Continued)
Years Ended December 31, 2003 and 2002

	2003			
Departmental Expenses	**Salaries, Wages and Benefits**	**Purchased Services and Other**	**Supplies**	**Total**
General services:				
Dietary and cafeteria	$ 2,159,364	$ 136,896	$ 2,068,364	$ 4,364,624
Housekeeping	1,698,388	293,289	291,432	2,283,109
Laundry	29,423	139,534	(66,745)	102,212
Plant engineering and security	2,237,362	4,321,548	417,830	6,976,740
Utilities	-	3,656,632	-	3,656,632
	6,124,537	8,547,899	2,710,881	17,383,317
Fiscal and administrative services:				
Accounting	487,990	14,016	6,970	508,976
Administration	12,524,207	2,701,599	240,655	15,466,461
Information systems	1,487,114	8,117,351	166,319	9,770,784
Education	204,980	109,154	37,558	351,692
Employee benefits	23,997,039	-	-	23,997,039
Financial support services	458,261	13,133	6,047	477,441
Insurance	-	4,541,922	-	4,541,922
Medical records	1,650,688	514,517	92,201	2,257,406
Miscellaneous	-	624,918	-	624,918
Patient accounts	1,812,613	376,955	227,868	2,417,436
Personnel	1,301,757	195,887	56,148	1,553,792
Physician's network	13,357,585	4,478,431	244,408	18,080,424
Printing and duplication	84,882	14,686	284,030	383,598
Professional fees	-	3,039,393	-	3,039,393
Public relations	989,535	1,188,473	23,705	2,201,713
Purchasing	278,251	6,804	3,407	288,462
Telephone service	166,293	817,382	740	984,415
Volunteer services	113,305	37,695	17,213	168,213
	58,914,500	26,792,316	1,407,269	87,114,085
Total	$ 132,897,778	$ 59,912,162	$ 35,843,320	$ 228,653,260

2002			
Salaries, Wages and Benefits	Purchased Services and Other	Supplies	Total
$ 2,520,109	$ 150,137	$ 2,339,527	$ 5,009,773
1,934,239	270,545	323,904	2,528,688
60,803	7,898	38,803	107,504
2,704,558	4,060,783	458,693	7,224,034
-	2,921,329	-	2,921,329
7,219,709	7,410,692	3,160,927	17,791,328
413,582	18,756	12,458	444,796
10,189,201	3,037,311	303,874	13,530,386
3,279,016	3,436,961	99,886	6,815,863
213,877	75,470	29,890	319,237
29,434,107	(12,335)	1,565	29,423,337
143,215	124	251	143,590
-	3,894,629	-	3,894,629
1,563,102	811,428	102,462	2,476,992
-	582,687	-	582,687
2,811,947	440,775	299,173	3,551,895
1,044,066	336,633	42,879	1,423,578
17,808,163	6,249,339	347,464	24,404,966
74,649	9,656	319,769	404,074
-	3,635,297	-	3,635,297
1,339,112	1,273,138	61,867	2,674,117
297,840	3,807	4,781	306,428
296,389	768,396	16,936	1,081,721
117,261	25,520	16,969	159,750
69,025,527	24,587,592	1,660,224	95,273,343
$ 143,017,249	$ 56,903,312	$ 33,923,749	$ 233,844,310

East Jefferson General Hospital and Related Organizations

Hospital Statistics
Years Ended December 31, 2003 and 2002

	(Unaudited)	
	2003	2002
Total admissions	**19,196**	20,463
Inpatient admissions, excluding nursery	**17,251**	18,386
Nursery, newborn and neonatal	**1,945**	2,077
Total patient days of service	**112,311**	119,389
Inpatients, excluding nursery	**104,333**	110,871
Nursery, neonatal	**3,722**	3,836
Nursery, newborn	**4,256**	4,682
Special care units days of service, included in inpatient days of service above:		
Psychiatric unit	**6,371**	7,382
Rehabilitation unit	**8,422**	8,613
Skilled nursing facility unit	**5,207**	8,123
Average daily census	**307.7**	327.1
Inpatients, excluding nursery	**285.8**	303.8
Nursery, neonatal	**10.2**	10.5
Nursery, newborn	**11.7**	12.8
Percentage of occupancy, inpatients, excluding nursery	**66.2%**	76.5%
Medicare percentage of total patient days	**54.3%**	53.6%
Average length of stay (days):		
Inpatients, excluding nursery	**6.0**	6.0
Nursery, newborn and neonatal	**4.1**	4.1
Psychiatric unit	**5.5**	6.3
Rehabilitation unit	**14.1**	14.3
Skilled nursing facility unit	**13.3**	12.3

East Jefferson General Hospital
and Related Organizations

Hospital Statistics
Years Ended December 31, 2003 and 2002

	(Unaudited)	
	2003	2002
Ambulance runs	**12,883**	13,948
Anesthesiology cases	**14,444**	15,148
Blood bank units of service	**115,889**	*
Cardiology:		
Cath lab procedures	**10,854**	9,063
Noninvasive procedures	**60,364**	60,093
Deliveries, newborn	**1,919**	2,085
EEG tests	**2,162**	2,067
Emergency room visits	**50,128**	53,428
Endoscopy procedures	**9,991**	11,253
Laboratory units of service	**1,768,069**	*
Operations performed	**14,553**	15,291
Open heart operations	**325**	293
Physical therapy relative value units	**47,652**	53,285
Recovery room visits	**10,230**	10,675
Respiratory care units of service	**352,395**	387,613
Radiology:		
Diagnostic exams	**85,225**	94,690
CT scans	**22,109**	20,454
Nuclear medicine exams	**7,537**	8,188
Ultrasonic procedures	**14,662**	15,784
Special procedures	**4,944**	4,922
MRI procedures	**6,392**	6,146
Full-time equivalent employees	**2,207**	2,439

* The measure of units of service changed during the year ended December 31, 2003, comparable data is not available for 2002.

McGladrey & Pullen
Certified Public Accountants

LaPorte Sehrt Romig Hand
Certified Public Accountants

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors
East Jefferson General Hospital
Jefferson Parish, Louisiana

We have audited the combined basic financial statements of East Jefferson General Hospital and related organizations (the Organization) as of and for the year ended December 31, 2003, and have issued our report thereon dated February 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether East Jefferson General Hospital's combined basic 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 East Jefferson General Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the combined basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect East Jefferson General Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the combined basic financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as Item 03-1.

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 combined basic 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the of the reportable condition described in Item 03-1 is a material weakness. We noted other matters involving the internal control over financial reporting that we have reported to management of East Jefferson General Hospital and related organizations in a separate letter dated February 20, 2004.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Davenport, Iowa
February 20, 2004

LaPorte, Sehrt, Romig & Hand

Metairie, Louisiana
February 20, 2004

East Jefferson General Hospital
and Related Organizations

Schedule of Findings and Questioned Costs
Year Ended December 31, 2003

Findings Related to the Combined Basic Financial Statements

Reportable Condition:

03-1:

Finding: The Organization did not have an adequate system in place for identifying financial assistance to enable management to identify all federal assistance programs and complete the Schedule of Expenditures of Federal Awards.

Condition: The Organization was unable to identify the reimbursement received from Federal Emergency Management Agency (FEMA) related to expenditures incurred during the year ended December 31, 2002.

Criteria: The Office of Management and Budget Circular A-133 requires that organizations "identify, in its accounts, all federal awards received and expended and the federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of federal agency, and the name of the pass-through entity." A-133 also states that it is the auditee's responsibility to "prepared appropriate financial statements, including the schedule of expenditures of federal awards."

Recommendation: We recommend the Organization implement a system to identify all grant awards and determine if any portion is federal.

Response and Corrective Action Plan: Management will timely identify federal assistance programs which might require an audit subject to A-133 and ensure that a system is in place to fully comply with all reporting requirements as applicable.

Instances of noncompliance:

None

East Jefferson General Hospital
and Related Organizations

Summary Schedule of Prior Audit Findings
Year Ended December 31, 2003

02-1:

Finding: Control over supplies inventory items was not sufficient to protect the Organization's assets from misappropriation.

Status: Corrective action taken.

02-2:

Finding: The payroll supervisor had the ability to intercept manual payroll checks prior to their distribution to the department heads.

Status: Corrective action taken.

02-3

Finding: EJPN balance sheet accounts are not reconciled timely or reviewed by someone outside of the reconciliation process.

Status: Corrective action taken.

McGladrey & Pullen
Certified Public Accountants

LaPorte Sehrt Romig Hand
Certified Public Accountants

To the Board of Directors
East Jefferson General Hospital
Jefferson Parish, Louisiana

In connection with our audit of the combined basic financial statements of East Jefferson General Hospital and related organizations for the year ended December 31, 2003, we made certain observations. The purpose of this letter is to summarize those observations and provide recommendations which we believe will assist management in improving internal and administrative controls and operational efficiency.

CURRENT YEAR RECOMMENDATIONS

Physical Inventory Counts

The Hospital did not perform the physical inventory counts related to the pharmacy inventory until February 2004. Management should implement a policy for all departmental physical inventory counting procedures to ensure they are completed on or before year-end. Management should also consider the benefits of performing test counts on an interim basis to ensure the perpetual inventory system is accurate.

Management's Response: **We have already started to implement quarterly physical inventory counts in supply distribution and are working with PeopleSoft personnel to ensure the automated system is working properly. We are considering hiring one additional control clerk to verify counts entered into the system. New procedures are now in place to ensure all departmental physical inventories, including pharmacy, are counted before year-end. We are also considering hiring an outside firm to assist us in the year-end count process.**

Hospital Credit Cards

There is currently no review process in place for approval of expenditures made with Hospital credit cards. We did note that expenditures without the associated receipts are required to be approved by a member of the Board of Directors. A policy should be implemented for an approval process for all expenditures made with Hospital credit cards to ensure propriety.

Management's Response: **Effective immediately the CEO, CFO or Corporate Controller will review and approve all Hospital related expenses made on Hospital credit cards to ensure that proper documentation and explanations are attached. We will also ask the Internal Auditor to review this process to ensure compliance once a written policy is established.**

Equipment and Software

The Hospital has entered an agreement to purchase a new software system. Management should identify the cost and the associated net book value of the "old system" on the Hospital's financial statements. We recommend that management verify if the depreciable life assigned is such that these assets will be fully depreciated by the time the old system is no longer in use. This analysis may or may not result in accelerating depreciation on these assets over the implementation period.

Management's Response: The Hospital will initiate this process with Phoenix and Cerner input to identify when and what systems will become obsolete during the Enterprise Solution process. Additional depreciation expense will be recorded if it is determined to be a material amount during this project phase, based upon the analysis and implementation related schedules.

Construction in Process

The Hospital does not have a formal procedure in place to identify construction projects that are completed to ensure that they are properly placed in service and depreciated upon completion. Management should implement a formal procedure so that the accounting department personnel communicates monthly with the engineering department as to which projects were completed in that month. These projects should then be transferred from construction in process to the capital assets subsidiary ledger and depreciated upon their in-service date.

Management's Response: We agree with your comments and will implement a process between engineering and accounting so that communication does exist and we can timely transfer completed CIP projects into the capital subsidiary ledger and commence depreciating the assets over their useful life.

Interest Rate Swap Agreements

Management has indicated that they are currently researching the benefits of entering into an interest rate swap agreement to minimize the interest costs associated with the fixed rate outstanding bond issues.

In December 2002, Statement of Position (SOP) 02-2, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator*, was issued. SOP 02-2 amends the AICPA Audit and Accounting Guide for Health Care Organizations to address how not-for-profit health care organizations should report gains or losses on hedging and non-hedging derivative instruments under Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. The provisions of SOP 02-2 are effective for fiscal years beginning after June 15, 2003, which is the Hospital's fiscal year 2004, the provisions of the SOP should be applied prospectively. The accounting for the Hospital's derivative instrument, its interest rate swap agreement, will be subject to the guidance provided by SOP 02-2.

The SOP 02-2 clarifies that not-for-profit health care organizations should apply the provisions for FASB Statement No. 133 in the same manner as for-profit enterprises. In accordance with SOP 02-2 and Statement No. 133, the accounting for derivative gains and losses depends on the intended use of the derivative and the resulting designation.

- For a fair value hedge, the gain or loss on the derivative is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged items attributable to the risk being hedged.

- For a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income (outside earnings) and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any ineffective portion of the gain or loss is reported in earnings immediately.

- For a derivative not designated as a hedging instrument, the gain or loss is recognized in earning in the period of change.

We will work with management to determine how this Statement of Position will impact the Hospital's financial statements if the decision is made to enter into an interest rate swap agreement.

Management's Response: Management agrees with your comments provided a final decision is made and approved by the Board of Directors to move forward on this issue and the transaction is finalized. We look forward to working with our auditors to determine how this Statement of Position will impact the Hospital's financial statements.

PRIOR YEAR RECOMMENDATIONS

Balance Sheet Reconciliations

Although the Hospital's accounting records were adequate for the purpose of conducting our audit and reporting on your financial statements, there were a number of year-end adjustments.

While a significant portion of the general ledger accounts are reconciled in a timely manner, various accrued expense accounts are not being reconciled on a monthly basis. We recommend that all general ledger accounts be reconciled on a monthly basis. Someone should be assigned the responsibility of reviewing the activity in the account throughout the month and preparing a summary of the ending balance to ensure propriety.

Management's Response: We are restructuring the Accounting Department, reviewing job descriptions and responsibilities, and determining whether we need to hire an additional team member to be assigned to review the balance sheet accounts on a monthly basis to ensure propriety and accuracy of these accounts.

Status: RESOLVED

Cash and Cash Disbursements

All checks are signed with two signatures using an automated signature printer which is located in the Information Technology department. To further strengthen controls over cash disbursements, we recommend that consideration be given to implement a policy whereby all checks over a specified threshold must include at least one manual signature.

Management's Response: All checks over a specified threshold of $50,000 will now require at least one manual review or signature. We will either require the manual signature or will implement a sign-off listing sheet, which would require a sign-off by the CFO prior to the processing of the payment on any amounts over the threshold. We plan to implement this control effective June 1, 2003.

Status: RESOLVED

Personnel in the Information Technology Department print the automated checks and also maintain the log to reconcile the check numbers issued and voided. To strengthen controls, the log should be maintained by someone outside of the Information Technology Department who does not have access to the check writing or the accounts payable subsidiary ledger.

Status: RESOLVED

There is currently an accounting clerk that has access to the accounts payable subsidiary ledger and also is responsible for mailing automatic checks and signing manual checks. While there are compensating controls in place, to further strengthen controls, we recommend that management remove this clerk's manual check signing authority. A separate clerk without access to the accounts payable subsidiary ledger should be responsible for mailing of the automatic checks to vendors.

Status: IN PROCESS – Management is currently determining which responsibilities are most appropriate to reassign.

Management's Response: Regarding the controls currently maintained by IT, these functions will be moved to Internal Audit as soon as the internal auditor is hired. In the interim this function will temporarily be assumed by the Financial Planning and Analysis Department to ensure controls are strengthened. In addition, Internal Audit will assume the duties of mailing manual checks in the Accounts Payable Department once we reinstate that function.

Patient Accounts Receivable

During our testing of patient accounts receivable, we noted one large claim that was denied by the third-party payor. Hospital personnel did not file a timely appeal and therefore were forced to write-off the entire balance to contractual allowance. A formal policy should be implemented to ensure that all denied claims over a certain threshold are appealed within a specified time frame to ensure maximum reimbursement.

Management's Response: In early 2003 the office of Vice President of Revenue Cycle Management was established to address and resolve the patient accounts receivable issues. The work plans are being monitored in the patient accounts receivable area.

We implemented a new process where our Physician Advisor to the Case/Care Management Department, the attending Care Management Nurse, and the Insurance Coverage Verification Supervisor meet on a weekly basis to review all in-house accounts where the length of stay exceeds 6 days. In the case of a denial of days, the Collection Manager and/or Collection Representative now assist the Case Management Team Member in preparing letters of denial to the patient. If the account has an appeal opportunity, the appeal will be filed concurrently or within 10 days after discharge.

Status: RESOLVED

We noted that during 2002 the Hospital did not collect patient co-pays, deductibles, and self-pay balances at the time of service. Management should consider requiring collection of these amounts at the time of service to accelerate cash flow and reduce the amount of resources needed to follow-up on collection of these amounts.

Management's Response: As part of our redesign of the Patient Access Department, pre-admit functions for all scheduled patients now are trained on the up-front collection of amounts due from the patient. The daily measurement of pre-admit collections to forecast are now measured and monitored. As a result, our collections have increased 76% in the first three months in 2003. Another facet of the redesign process underway in 2003 is to install technology and collection tools and related software at each of our registration desks throughout the Patient Access areas. The tools that are now in place have enabled the team members to collect 90% of our 2003 monthly goals. We also trained the Patient Access Team Members on how to collect payments.

Status: RESOLVED

We noted separate departments are responsible for posting the cash and contractual adjustments to the patient receivable subsidiary ledger. Management should review the process for these postings to ensure the most efficient method.

Management's Response: Each department's representative is posting cash and adjustments under the Revenue Cycle Management matrix. To continue to improve controls in 2003, management will undertake a complete assessment of the process to determine how both the process and internal controls can be further improved.

Status: RESOLVED

Riverside Medical Center

The Hospital currently employs two individuals that are leased to Riverside Medical Center. The Hospital bills Riverside for the direct cost of the wages and benefits related to these employees. We noted the Hospital has not submitted billings for wages and benefits from June through December 2002 and has not received payment on the billing submitted for January through May 2002. Management should implement procedures to ensure timely billing and collections of these amounts.

Management's Response: In January 2003 management implemented new procedures to ensure that we bill and collect the monies from Riverside Medical Center on a monthly basis. Riverside is paid current for 2003 activity, however still owes EJGH for 2002. We are pursing collection of these amounts.

Status: IN PROCESS – The amounts owed to the Hospital for periods prior to December 2002 have not been collected. Management is currently discussing payment options with Riverside to collect the remaining balance.

Inventory levels

Inventory levels have continued to increase even though patient revenue has declined. Management should review its policies for ordering inventory items to ensure adequate supplies are on-hand for patient care; however, excess inventory levels should be avoided to maximize cash levels. Also, as many pharmaceuticals and other medical supplies are perishable, carrying high levels of inventory can lead to obsolescence issues.

Management's Response: Management requested changes be made to the PeopleSoft software which will allow us to make accruals of non-stock items on a monthly basis. This will allow us to better monitor and benchmark these cost and inventory levels. Management has retained the services of the Matherlee Group to review the purchasing cycle and related systems and we are revamping these processes to ensure better monitoring of our inventory levels.

Status: IN PROCESS – Inventory levels continued to increase in 2003 and there were significant adjustments at year-end to adjust the general ledger to the physical counts.

Capital Assets

The current capital asset subsidiary ledger does not have the capability to accurately calculate the gains and losses on assets that are sold or disposed of. During our discussions with management, it was noted that proceeds from the disposals cannot be entered into the subsidiary ledger. Management should investigate the limitations of the software to determine if the software can be updated or modified to allow proceeds to be entered, or consideration should be given to using another subsidiary ledger system.

Management's Response: **Management determined that the software does not have the capability to compute the gain or loss on the disposal of assets. The Accounting Department keeps supplemental worksheets related to this matter, which captures and compiles the calculations to determine the gain or loss on the disposal of assets. We will evaluate an upgrade to our current technology in 2003 if capital is available. Until then, we will continue to use the manual Excel worksheets.**

Status: **RESOLVED**

PET Scan Center of East Jefferson, LLC

We noted several of the estimated useful lives assigned to capital assets owned by the PET Scan Center were not appropriate. We recommend Hospital management work with PET Scan Center to assign proper lives to the depreciable assets. Hospital management should monitor the financial statements of the PET Scan Center on a periodic basis to ensure the financial information is properly combined into the Hospital's financial statements.

We also noted discrepancies in the portion of the PET Scan Center net income that was being recognized by the Hospital. Management should update their ownership percentage upon purchase or sale of additional membership units to ensure the income recognized by the Hospital is appropriate.

Management's Response: **In 2003 our team member who is a member of the PET Scan Center Board of Directors instructed the joint venture general partner to supply accrual basis financial statements with appropriate estimated useful lives for all related capital assets. In 2003 management has adjusted the ownership percentage calculation to ensure we currently are recording the appropriate ownership percentage of the joint venture income/loss.**

Status: **RESOLVED**

EJPN, LLC

The Hospital does not account for its investment in EJPN, LLC on the equity method of accounting. The effects of this difference are eliminated for combined report purposes, however the net assets of the Hospital's stand-alone financial statements are overstated. Management should evaluate the need for this entity and adjust its investment to the appropriate balance.

Management's Response: **Management is in the process of analyzing whether or not to dissolve the LLC as perhaps its useful life has been exhausted. In 2003 management started recording this entity on combined basis.**

Status: **IN PROCESS – All financial statements issued to external third parties are on a combined basis with appropriate eliminating entries.**

Parking Garage Lease

The Hospital currently leases a parking garage from East Jefferson General Hospital Foundation. The terms of the lease agreement indicate fixed monthly payments related to operating expense as well as amounts to cover the Foundation's debt service. The agreement also stipulates that the monthly payment related to the Foundation's debt service can be reduced if the Foundation's required monthly debt service payment decreases due to a lower variable interest rate. This reduction would occur as a rebate paid back to the Hospital. We noted that rather than the Hospital submitting payment to the Foundation for their gross payment amount and then receiving a rebate check from the Foundation, the Hospital is paying the Foundation's debt directly to the Foundation's lender. The billings from the lender are addressed directly to the Hospital. While we confirmed with the lender that the federal identification number listed on the loan account belongs to the Foundation, management should request that the billings no longer be addressed to the Hospital and instead have the Hospital make payments to the Foundation.

Management's Response: **Management will now make its rental payments to the Foundation.**

Status: **RESOLVED**

Bond Agreements

The Hospital has not made a formal determination as to who the "restricted affiliates" are in accordance with the requirements of its bond agreements. While this does not appear to impact the calculations of bond covenant compliance for fiscal year 2002, we recommend that management formally document which organizations are categorized as restricted affiliates to ensure accurate bond covenant compliance calculations.

Management's Response: **The Hospital, after reviewing the bond ordinance, specifically the definition of "restricted affiliates" contained in Section 1.01 thereof, has determined there are no restricted affiliates.**

Status: **RESOLVED**

We noted several requirements in the bond agreements related to required consultations regarding insurance coverage adequacy. These opinions have not been obtained in accordance with the bond agreements. Management should review the bond agreements to ensure the proper consultations are obtained and submitted in accordance with the agreements in the future.

Management's Response: **Management reviewed the bond agreements and will ensure that any required consultations are obtained and submitted in accordance with the bond agreements in 2003. These consultations are required if the Hospital decides to have insurance which varies from the types, limits, and deductibles set forth in the bond covenants. The current insurance market is making some of the specified coverage unavailable and the consultations will probably be needed in 2003.**

Status: **RESOLVED**

Arbitrage Calculation

The Hospital did not obtain a formal arbitrage rebate liability calculation related to the Series 1993 Revenue Bonds. Management has performed internal calculations to ensure that there is no potential arbitrage rebate liability related to these bonds; however, we wanted to make you aware of this required calculation.

Management's Response: **Management has made the decision that obtaining a formal arbitrage rebate liability calculation would not be cost justified at this time.**

Status: **IN PROCESS – The Series 1998 Revenue Bonds will have an arbitrage rebate calculation requirement in 2004.**

Asbestos Reserve

The Hospital recorded a reserve related to cash received to reimburse the Hospital for future asbestos removal costs related to the Browne-McHardy building. Management should monitor the costs incurred to renovate this building to ensure asbestos removal costs are properly offset to this reserve.

Management's Response: **Once management has decided the outcome of dealing with asbestos in this building we will adjust our reserve at the appropriate time.**

Status: **IN PROCESS – The Hospital is currently reviewing any potential asbestos removal expenditures that would be necessary in this building.**

Employee Health Insurance Plan

During fiscal year 2002, the Hospital converted to a fully self-insured employee health plan. While this decision will eliminate stop-loss premiums, management should periodically review claims paid under the revised plan. Along with this claims analysis, a cost-benefit analysis of stop-loss coverage should be performed to ensure the most appropriate and cost effective plan for the Hospital given its acceptable risk levels.

Management's Response: **A cost benefit analysis was prepared in 2002 and it was determined to not be cost justified to continue stop-loss coverage in 2002. The Senior Vice President of Human Resources will continue to monitor the affordability of stop-loss in future years.**

Status: RESOLVED

Workers Compensation Plan

The Hospital is currently self-insured for workers compensation insurance coverage. A third-party administrator processes claims. We noted management is not currently reviewing the monthly reports received from the third-party administrator to ensure that the liability accrued is sufficient to cover open claims and an estimate of claims incurred but not reported. Management should implement a policy to obtain the claims reports on a periodic basis. We also noted the claims report received from the third-party administrator does not reflect updated loss reserves for claims that have been turned over to the attorneys for litigation or settlement. Management should review the current process of setting the loss reserves to ensure an accurate estimate of outstanding claims is provided for.

Management's Response: **The Hospital did not receive the monthly reports from the third-party administrator in 2002. However, in 2003 management will request these reports and determine the financial impact of material workers compensation cases in conjunction with the Compliance Department.**

Status: RESOLVED

Supplemental Executive Retirement Plan (SERP)

The Hospital did not obtain a valuation of the SERP payable as of December 31, 2002. Due to payments made to participants of this plan during fiscal year 2002, management should consider the benefits of obtaining a formal valuation of this plan during fiscal year 2003.

Management's Response: **Management is in the process of evaluating whether to continue the SERP in 2003. If the plan is continued, a formal valuation will be obtained.**

Status: **IN PROCESS – There has been no formal valuation performed; however, management has prepared calculations estimating the SERP liability.**

Medical Malpractice Liability

The Hospital currently computes the medical malpractice liability without the use of an actuary. Management should consider the benefits of periodically contracting an actuary to more accurately estimate the medical malpractice liability. Management should also implement a policy regarding consistent methodology for determining the proper liability.

Management's Response: **The Hospital's liability for medical malpractice claims is computed by the attorneys handling the matter. That exposure lies somewhere between $0 - $ 100,000 per claim. The methodology used to evaluate the range of exposure relies upon the experience of the evaluating attorneys with the results obtained in our local jurisdiction. These evaluations are reviewed quarterly and reported to the Accounting Department. It has been felt that the experience of the attorney handling the claims represents an accurate estimate of the likelihood of loss and evaluation of the damages. In addition, with increasing deductibles in other areas of our insurance program, proposals are being discussed to evaluate our insurance philosophy and program that would likely include an actuarial evaluation.**

Status: **RESOLVED**

East Jefferson Physician Network

We noted the Hospital receives cash on behalf of East Jefferson Physician Network. These amounts are posted to an unapplied cash account until they can be posted to the individual patient account included in the subsidiary ledger. The unapplied cash account balance has been increasing and there was no timely reconciliation or follow-up on the amounts remaining in the account. Management should investigate the current balance in this account and develop procedures to ensure timely posting of cash receipts to the patient accounts subsidiary ledger.

Status: **RESOLVED**

We noted approximately $750,000 of credit balances included in the former patient accounts receivable subsidiary ledger that are a result of dates of service prior to 2000. Management should investigate these credit balances and issue the appropriate refunds on a timely basis.

Status: **RESOLVED**

There is no formal calculation performed for the allowance for uncollectible accounts and contractual adjustments related to East Jefferson Physician Network patient accounts receivable balances. Management should calculate an estimate of these allowances on a monthly basis based on historical reimbursement information. These calculations should also consider the age of the patient accounts receivable.

Status: **IN PROCESS – A formal calculation is now being performed for an overall allowance amount; however, management is still working towards the ability to separate bad debts from contractual allowances.**

We noted several reconciling items on the cash reconciliations that dated back to July 2001. These items related to unposted patient cash receipts. All reconciling items should be investigated timely to ensure accurate reporting.

Status: **RESOLVED**

Management's Response: **Hospital's management has implemented procedures in 2003 to ensure the timely and accurate posting of cash receipts to and from the EJPN general ledger account #12500. Management will instruct EJPN to "turn off" the old accounting system which houses these $750,000 in credit balances and to write off these amounts to bad debt expense where no refund is appropriate. Management will investigate any discrepancies in misapplied funds relating to credit balances, etc. We are in the process of obtaining more accurate data from EJPN to ensure an accurate calculation for the allowance for uncollectible accounts and the related contractual adjustments on a monthly basis. In 2003, we have implemented procedures and made adjusting journal entries to resolve issues relating to unposted patient cash receipts and established more complete and accurate estimates of contractual adjustments and the reserve for uncollectable accounts on a monthly basis.**

Revenue Enhancement and Cost Reduction Analysis

We noted that while management prepares a formal budget that is approved by the Board of Directors, there have been significant variances in actual expenses compared to budgeted amounts. Given the current financial situation of the Hospital, management should consider implementing cost control measures coupled with more intense scrutiny of the monthly comparison of budget to actual. If assumptions change throughout the year, management should prepare a revised budget to be approved by the Board of Directors.

We also noted significant declines in patient statistics in various revenue generating departments of the Hospital. The following summarizes some of the significant declines:

	2002	2001
Cardiac catheterization procedures	9,063	9,764
Operations performed	15,291	16,725
Open heart operations performed	293	400

We recommend the Hospital have a revenue enhancement and cost reduction analysis prepared to provide management with vital operating information. Such an analysis would present various revenue levels to be generated for the Hospital to break-even and to be profitable. Consideration should be given to determining which costs are fixed as compared to variable in order to identify potential strategies to implement as actual operating results vary from budgeted break-even volume. Such strategies should attempt to maximize the benefits of the fixed costs by providing alternative uses for those resources. The analysis might also highlight areas of operational inefficiencies and excess fixed overhead that management could devote attention to reduce in order to achieve profitability.

Management's Response: During 2002 there were significant variances in actual expenses compared to budgeted amounts. Many factors contributed to the variances including optimistic volume projections, the bankruptcy of a medical practice that admitted a significant number of patients to EJGH, and the bankruptcy of several managed care organizations in the New Orleans market. The key executives involved in setting the volume projections are no longer employed by the Hospital. The new administration, with the assistance of consultants, has implemented several cost control measures that already have resulted in a significant turnaround in financial performance. These controls included realistic volume projections, development of staffing standards, and a biweekly productivity monitoring system to quickly identify adverse trends for senior management and directors throughout the organization. The biweekly productivity includes both labor (hours per unit of service) and salary (cost per unit of service). While management does not change the budget during the year in response to decreases or increases in volume, all department heads have been taught how to and are expected to "staff to volume".

Management has conducted a cost reduction analysis and has modified routine reports to provide additional operating information. Product line analyses are taking place and decisions will be made regarding expansion, contraction, or elimination of selected services. All department heads and members of administration have been told that all staffing is variable on an annual basis. No positions are considered as 'fixed" and are subject to review based on overall hospital performance and volumes. Several "fixed" positions have been eliminated by consolidation of management responsibility and a review of spans of control.

The Hospital has used a combination of benchmark comparisons performed quarterly and the assistance of nationally recognized staffing consultants to evaluate staffing levels. In addition to simply comparing to benchmarks several analyses have been conducted of patient acuity and other appropriate staffing factors, e.g., average case length in the OR, procedure mix for the clinical cost centers, and customer service levels. The Hospital has established a Financial Planning and Analysis Department and is in the final stages of recruiting an executive-level management engineer to monitor productivity on at least a bi-weekly basis.

Status: RESOLVED

Chart of Accounts

We noted various general ledger accounts with misleading or outdated accounts descriptions. Management should review the chart of accounts to ensure accurate descriptions on an annual basis. Outdated account descriptions should be updated and new accounts should include representative descriptions.

Management's Response: The Director of Accounting will implement a process to identify accounts with misleading descriptions and make any necessary changes by July 1, 2003.

Status: RESOLVED

Internal Financial Reporting

The Hospital's current internal financial statements prepared on a monthly basis are not in a consistent format with the annual audited financial statements. We also noted several expense items that are not appropriately classified. Interest expense should be a component of operating expenses. The provision for bad debts, which is currently shown as a reduction of gross patient service revenue, should also be classified as an operating expense. Management had indicated its desire to modify the format of the internally prepared financial statements. These format changes will provide consistent financial information on a monthly basis in order for management and the Board of Directors to make informed operational decisions.

The Accounting Department should take whatever steps necessary to ensure that senior management receives current and accurate financial information on a timely basis. This may require that additional resources be devoted to the accounting staff in order to bring the current books and records up to date. If it is determined that the Department is understaffed, steps should be taken to alleviate this problem so that work can remain current without an undue hardship on any one employee. Once up-to-date, the accounting staff must consistently provide management with the accurate financial reports and information necessary to effectively manage the Hospital's operations.

Management's Response: **We are making all necessary changes to be consistent with the format of the audited financial statements. We have implemented a process, which generates a "FLASH" financial report by the 10th of each month, which is shared with Senior Management. The goal of the Vice President – Corporate Controller is to ensure that complete financial statements are prepared by the 20th of each month for the prior month. We are in the process of developing a Financial Planning and Analysis Department, which will give timely and accurate financial feedback to Board Members, Senior Management, and Hospital Directors concerning financial operations.**

Status: **RESOLVED**

Contract Management

During our audit of the financial statements of the Hospital, we reviewed the provisions of several of your significant third-party payor contracts. The results of our overview of the contracts and discussions with management are consistent with those of other clients in the healthcare industry. Commercial payor language is often very complex, vague as to the intention and meaning of the chosen wording, and occasionally omits critical provisions that may be necessary to accurately assess the claims processing and payment processes for the contracts. The contracts often contain withhold provisions and potential liability issues may surface in some of these contracts.

We believe the modification of contract language, contract management, and contract negotiation processes may *represent an opportunity for improved understanding of contract management. Clarification of contract provisions* may improve your ability to ultimately collect what the contract entitles you to and may eliminate some of the risk for liabilities because of language that may have been omitted in significant contracts.

Management's Response: **We are in the process of re-negotiating contracts, which should help clear up most of the language of these contracts. We recently hired a new Director of Managed Care to assume these duties.**

Status: **IN PROCESS – Management continues to review contracts as they are re-negotiated.**

Information Systems Integration

The Hospital currently has numerous software systems in place with various hardware environments. We suggest management take the following actions to ensure that the information systems configuration is the most efficient and effective for its operations.

- Conduct an intensive study to determine possible alterations to the current computer system so that it would best meet the Hospital's needs.
- The intensive study should require a detailed evaluation of the Hospital's specific information be undertaken.
- Using the information obtained from the intensive, detailed study, implement a plan of action to potentially reconfigure and integrate the current systems to best meet the Hospital's operational needs.

Management's Response: **Management is in the process of evaluating its Information Technology master plan, including potential outsourcing of our IT Department to a business partner that will lead the Hospital through a new core and related systems selection process.**

Status: **IN PROCESS – The IT Department was outsourced as of July 2003. The Hospital has also signed an agreement in January 2004 to purchase a new software system that will aide with these integration issues.**

Audit Committee

In response to recent corporate accounting and ethics scandals, Congress enacted the Public Company Accounting Reform and Investor Protection Act 2002. Although the Hospital is not required to adhere to the provisions of this Act, also know as the Sarbanes-Oxley Act, adopting certain concepts included in this Act may be beneficial to the Hospital.

The establishment of an audit committee will assist the Members of the Board in accomplishing their fiduciary duty and responsibility to the Hospital in the financial realm. The audit committee would be responsible for engaging the independent auditors, reviewing the overall audit plan, reviewing the audited financial statements and the related management letter; creating a summary and conclusion; and reporting the resulting summary and conclusion to the Board of Directors. Recently issued Statements on Auditing Standards require, in certain circumstances, that the independent auditor have a direct contact with such a committee of the governing board. An audit committee is advantageous because it ensures direct communication between the independent auditor and the Board. Our experience has been that Board Members generally approve of audit committees because these committees prove to be the most effective and time efficient method of communication within the Board. We commend your recent efforts to implement an audit committee and encourage you to continue to develop this committee's role in relation to management and the Board of Directors.

Management's Response: **In 2003 we established an active Finance Committee of the Board of Directors of the Hospital. They meet monthly and act as an Audit Committee of the Hospital and report their findings to the Hospital's Board of Directors.**

Status: **RESOLVED**

Health Insurance Portability and Accountability Act (HIPAA)

Commitment to implementing the Health Insurance Portability and Accountability Act (HIPAA) requirements needs to be demonstrated and documented. The Standards for Privacy of Individually Identifiable Medical Information regulations amended August 14, 2002 should be considered the basis for an organization's implementation of a program for protecting the privacy of medical information. HIPAA is noted as "the most significant health care law to create sweeping changes in the health care industry since Medicare".

Covered entities include those directly involved with health care delivery, insurance plans, and their business partners. As noted in the regulations "a covered entity must change its policies and procedures as necessary and appropriate to comply with changes in the law, including the standards, requirements, and implementation specifications". Compliance with medical information privacy is to be achieved by April 14, 2003.

The compliance commitment needs to include an ongoing program of worker training, compliance monitoring, and refinement of the policies and practices. Our recommendation is that compliance measures be put in place as soon as developed so that any difficulties can be ironed out prior to April 2003 when complaints may be filed with the Health and Human Services Center for Medicare and Medicaid Services (HHS-CMS).

Those organizations that filed for the extension of EDI transaction implementation have until October 16, 2003 to implement the standardized formats for electronic exchange of data. The EDI standards will require software changes coordinated with those handling eligibility, health claims, payments, coordination of benefits, referrals, and premium payment transactions. The implementation may also involve selection and testing of new systems or vendor services. This testing program needs to commence by April 16, 2003.

Management of the activities to achieve compliance and the testing of the privacy practices and electronic transaction transmissions is a substantial effort. Management practices to assure compliance is achieved by the requirement date need to be put in place and there should be regular communications with the Board on the HIPAA compliance status.

Some of the compliance preparation tasks can be conducted very effectively by internal personnel. The more technical assessments, such as computer security, or those where independence or objective judgment are required, such as policy and practice compliance testing, may require outside assistance. We recommend that the management program include the resource allocations, both internal and external, that are to be employed to achieve and maintain document compliance.

Management's Response: Management is implementing an appropriate and organization-wide response to the HIPAA standards. Such an effort has been underway and compliance to HIPAA privacy regulations was essentially achieved on April 14, 2003.

Status: RESOLVED

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This report is intended solely for the information and use of the Board of Directors, management, and others within the Hospital, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to thank Hospital personnel for their assistance throughout fieldwork.

We appreciate serving East Jefferson General Hospital and related organizations and would be happy to assist you in addressing and implementing any suggestions in this letter.

McGladrey & Pullen, LLP

Davenport, Iowa
February 20, 2004

LaPorte, Sehrt, Romig & Hand

Metairie, Louisiana
February 20, 2004