

**East Jefferson General Hospital
and Related Organizations**

Combined Financial Report

12.31.2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 6-29-05

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McGladrey & Pullen

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, 2004 and 2003 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, 2004 and 2003, 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 18, 2005 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, grants, agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 37 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, 2004 and 2003 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 18, 2005

LaPorte, Schmit, Romig & Hunk

Metairie, Louisiana
February 18, 2005

**East Jefferson General Hospital
and Related Organizations**

**Management's Discussion and Analysis
Years Ended December 31, 2004 and 2003**

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, 2004 and 2003. 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 444-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; East Jefferson Physician Network, LLC which was used to acquire several physician practices; and East Jefferson Ambulatory Surgery Center, LLC, which will operate an ambulatory surgery center.

Financial Highlights

The assets of the Organization exceeded its liabilities by \$287,662,143 and \$292,237,059 (net assets) as of December 31, 2004 and 2003, respectively.

The Organization's total assets decreased by \$8,789,873 or 1.6% from December 31, 2003 and \$19,243,366 or 3.4% from December 31, 2002.

The Organization's total liabilities decreased by \$4,214,957 or 1.6% from December 31, 2003 and \$11,932,005 or 4.4% from December 31, 2002.

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.

**East Jefferson General Hospital
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**Management's Discussion and Analysis
Years Ended December 31, 2004 and 2003**

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, 2004, 2003, and 2002 follows:

	Year Ended December 31,		
	2004	2003	2002
	(Dollars in Thousands)		
Net patient revenue	\$ 264,429	\$ 245,998	\$ 231,897
Other operating revenue	5,975	5,906	6,567
Total operating revenue	270,404	251,904	238,464
Nonoperating revenue	9,017	10,468	20,958
Total revenue	279,421	262,372	259,422
Expenses:			
Salaries, wages, and benefits	135,657	133,071	143,097
Purchased services and other	72,155	61,179	57,613
Supplies	41,380	35,843	33,924
Depreciation and amortization	19,949	20,268	19,669
Interest	11,791	12,452	12,474
Total operating expenses	280,932	262,813	266,777
Nonoperating expenses	1,375	426	5,116
Total expenses	282,307	263,239	271,893
Excess of revenue (under) expenses and loss before transfers and minority interest	(2,886)	(867)	(12,471)
Transfers to Jefferson Parish	(1,062)	(1,064)	(1,126)
Minority interest in net (income) of related organizations	(627)	(805)	(483)
Change in net assets	(4,575)	(2,736)	(14,080)
Net assets:			
Beginning	292,237	294,973	309,053
Ending	\$ 287,662	\$ 292,237	\$ 294,973

**East Jefferson General Hospital
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**Management's Discussion and Analysis
Years Ended December 31, 2004 and 2003**

Operations

Year Ended December 31, 2004: Total operating revenue increased from 2003 to 2004 by \$18,500,000. During 2004 the charge master continued to be updated and revised to reflect the most current and accurate data related to pricing in the Greater New Orleans area. Also, major changes were made in the professional and technical charges relating to East Jefferson Physician Network (EJPN). Also, with the Asset Sale Agreement between Doctors Hospital of Jefferson, LLC, a Tenet Health System Hospital and the Jefferson Parish Hospital Service District No. 2. (East Jefferson General Hospital) the transaction has a positive effect on an increase in patient days and volume, which is reflected in the increase in operating revenue between the years. Overall outpatient diagnostic and therapeutic procedures increased 11%.

Operating expenses increased from 2003 to 2004 by \$18,119,000. The most significant increases occurred in the areas of purchase services and supplies of \$10,976,000 and \$5,537,000, respectively. Purchased services and other expenses increased largely as a result of outside consultants hired by the Hospital and supply expense increased largely as a result of overall price increases in the market for drugs, medical supplies and expendables for the latest technology on these items. Contact labor increased \$1,631,000 and outside collections increased \$1,099,000 in 2004. In addition to these increases in operating expenses media cost increased \$221,000 and travel increased \$75,000 in 2004. Our purchase services expenses for 2004 include an entire year of outsourcing Information Technology, and in 2003 these expenses were only for half a year.

The excess of revenue over (under) expenses and loss before transfers and minority interest for the year ended December 31, 2003 was \$867,000, and for the year ended December 31, 2004, the loss was \$2,886,000 reflecting recording the change in fair value of the interest on the rate swap agreement of \$894,000 and a reduction of investment earnings of \$2,988,000.

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.

**East Jefferson General Hospital
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**Management's Discussion and Analysis
Years Ended December 31, 2004 and 2003**

Condensed Combined Balance Sheets

Condensed versions of the Balance Sheets as of December 31, 2004, 2003, and 2002 follow:

	December 31,		
	2004	2003	2002
	(Dollars in Thousands)		
Assets:			
Current assets	\$ 144,232	\$ 118,792	\$ 109,886
Assets limited as to use, noncurrent	181,969	239,700	244,699
Capital assets	212,198	188,620	201,728
Other assets	10,192	10,269	11,522
Total assets	\$ 548,591	\$ 557,381	\$ 567,835
Liabilities:			
Current liabilities	\$ 84,282	\$ 31,959	\$ 32,150
Long-term debt	168,154	227,996	233,537
Retirement benefits, noncurrent	27	25	25
Other liabilities, noncurrent	8,466	5,164	7,150
Total liabilities	\$ 260,929	\$ 265,144	\$ 272,862
Net Assets:			
Invested in capital assets, net of related debt	\$ 41,992	\$ 10,083	\$ 17,919
Restricted under bond indenture	21,672	21,002	20,920
Unrestricted	223,998	261,152	256,134
Total net assets	\$ 287,662	\$ 292,237	\$ 294,973

Long-term debt consists of several revenue bond issues issued in 1985, 1993, 1998, and 2004. 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, 2004. Please see the Notes to the Combined Basic Financial Statements for additional information.

**East Jefferson General Hospital
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**Management's Discussion and Analysis
Years Ended December 31, 2004 and 2003**

December 31, 2004: Total current assets increased in 2004 by \$25,440,000. On August 31, 2004 East Jefferson General Hospital purchased Doctors Hospital of Jefferson, LLC from Tenet Health Systems, Inc. for \$25,493,000. Included in this purchase was land with a fair market value of \$1,700,000, and buildings and equipment with an assigned value of \$23,793,000.

Total liabilities decreased over prior year by \$4,215,000. The most significant change is the reflection of reduction in long-term debt between the periods of \$59,842,000 as the 1985 Bonds are due within a year and are reflected in the current portion of the 2004 balance sheet.

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.

Condensed Combined Statements of Cash Flows

	Year Ended December 31,		
	2004	2003	2002
	(Dollars in Thousands)		
Cash provided by operating activities	\$ 18,796	\$ 16,629	\$ 3,099
Cash (used in) capital and related financing activities	(60,287)	(24,446)	(35,530)
Cash (used in) non-capital financing activities	(513)	(1,591)	(3,036)
Cash provided by investing activities	36,852	13,553	38,313
Net increase (decrease) in cash	(5,152)	4,145	2,846
<i>Cash and cash equivalents:</i>			
Beginning	8,309	4,164	1,318
Ending	\$ 3,157	\$ 8,309	\$ 4,164

**East Jefferson General Hospital
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**Management's Discussion and Analysis
Years Ended December 31, 2004 and 2003**

Year Ended December 31, 2004: Cash provided by operating activities increased by \$2,167,000 over the prior year. In addition, cash used in capital and related financing activities increased from the prior year by \$35,841,000; however, cash provided by investing activities was \$23,299,000 more than the prior year as investments were sold and the proceeds were used for the purchase of Doctors Hospital from Tenet. Cash and cash equivalents decreased over the prior year by \$5,152,000. In January 2004, the Organization entered into an agreement for the purchase and implementation of a new software system and related equipment. During 2004 the Organization entered into an interest rate swap agreement and issued Series 2004 Bonds.

Year Ended December 31, 2003: Cash provided by operating activities increased significantly over the 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.

Capital Assets

December 31, 2004: At December 31, 2004 the Organization had \$212,198,000 invested in capital assets. Capital expenditures in 2004 were approximately \$23,617,000 more than 2004 depreciation expense, resulting in an increase of capital assets from 2003 to 2004.

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,		
	2004	2003	2002
	(Dollars in Thousands)		
Capital assets not being depreciated:			
Land	\$ 12,418	\$ 10,718	\$ 10,718
Construction in progress	11,466	3,235	2,878
Capital assets net of depreciation:			
Land improvements	2,118	2,302	2,594
Buildings	139,847	126,447	131,738
Fixed equipment	4,107	4,788	6,322
Major movable equipment	42,230	41,100	47,429
Minor equipment	12	30	49
Total capital assets, net	\$ 212,198	\$ 188,620	\$ 201,728

**East Jefferson General Hospital
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**Management's Discussion and Analysis
Years Ended December 31, 2004 and 2003**

Long-Term Debt

Long-term debt consists of four revenue bond issues, described in more detail in the Notes to the Combined Basic Financial Statements. The principal balance on the outstanding bonds was \$218,750,000, \$222,990,000, and \$227,910,000 as of December 31, 2004, 2003, and 2002, respectively. The decrease is attributable to principal payments on the bonds and capital lease obligations.

Economic Factors

Year Ended December 31, 2004: Fiscal 2004 continues to provide EJGH with substantial challenges due to declining reimbursement dollars from our HMO/PPO payers, very tight margins in Medicare and Medicaid reimbursement, and aggressive marketing campaigns by our competitors. EJGH has a major Strategic Plan that will promote and develop a positive bottom line from operations. In addition to this, the acquisition of Doctors Hospital has had a positive affect on admissions and volumes. The interest rate swap agreement, which was executed in 2004, should help provide a reduction in interest expense over the remaining term of the 1993 bonds that the agreement was executed on.

We continue to work developing collaborative relations with our physicians, HMO/PPO's, and other insurance payors to stabilize reimbursement rates. We continue to provide services to patients who are underinsured or who are self-pay. We have several new Board members who are very supportive of assuring that EJGH provides the highest quality of patient care and that we exceed our 2005 Budget expectations. The installation of our new technology information systems (COMPAS) will also make us more competitive and efficient in the market place.

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.

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, 2004 and 2003**

Assets	2004	2003
Current Assets:		
Cash and cash equivalents (Note 4)	\$ 3,157,364	\$ 8,309,445
Short-term investments (Note 4)	22,189,553	47,933,801
Receivables:		
Patients, net (Note 5)	38,131,010	35,273,623
Other	1,133,392	2,387,832
Estimated third-party payor settlements	3,397,312	3,938,312
Assets limited as to use, current portion (Note 4)	64,803,454	9,992,745
Inventories	5,934,822	6,028,824
Prepaid expenses	5,485,338	4,927,828
Total current assets	144,232,245	118,792,410
Noncurrent Assets:		
Assets limited as to use (Note 4):		
Under bond indenture	76,810,645	75,537,988
Board-designated for specific purposes	169,961,646	174,154,484
	<u>246,772,291</u>	<u>249,692,472</u>
Less portion required for current liabilities	64,803,454	9,992,745
	<u>181,968,837</u>	<u>239,699,727</u>
Capital assets, net (Notes 6 and 7)	212,198,436	188,620,192
Debt issuance costs, net of accumulated amortization	4,052,253	4,090,143
Investment in associated companies (Note 11)	2,729,930	1,939,923
Deferred compensation and life insurance (Note 8)	2,757,352	3,153,555
Other receivables	652,367	1,085,343
	<u>404,359,175</u>	<u>438,588,883</u>
	<u>\$ 548,591,420</u>	<u>\$ 557,381,293</u>

See Notes to Combined Basic Financial Statements.

Liabilities and Net Assets	2004	2003
Current Liabilities:		
Current maturities of long-term debt (Note 7)	\$ 61,033,540	\$ 5,541,104
Accounts payable	10,330,376	7,803,248
Accrued expenses:		
Salaries and wages	1,640,273	5,660,205
Paid leave	3,326,042	3,675,913
Health insurance claims (Note 9)	2,002,255	2,218,315
Interest	4,268,454	4,589,909
Other	1,680,708	2,470,243
Total current liabilities	84,281,648	31,958,937
Noncurrent Liabilities:		
Deferred compensation and executive benefits (Note 8)	1,929,609	2,131,910
Retirement benefits (Note 8)	27,213	25,081
Estimated self-insurance reserves (Note 9)	2,908,450	1,579,897
Long-term debt, less current maturities (Note 7)	168,154,173	227,996,327
Interest rate swap agreement (Note 7)	894,483	-
Minority interest in related organizations	2,733,701	1,452,082
Total noncurrent liabilities	176,647,629	233,185,297
Total liabilities	260,929,277	265,144,234
Commitments and Contingencies (Note 5, 6, and 9)		
Net Assets:		
Invested in capital assets, net of related debt	41,991,539	10,082,761
Restricted under bond indenture	21,672,085	21,002,237
Unrestricted	223,998,519	261,152,061
	287,662,143	292,237,059
\$ 548,591,420	\$ 557,381,293	

**East Jefferson General Hospital
and Related Organizations**

**Combined Statements of Revenue, Expenses, and Changes in Net Assets
Years Ended December 31, 2004 and 2003**

	2004	2003
Operating revenue:		
Net patient service revenue (Note 2)	\$ 264,428,895	\$ 245,998,038
Other operating revenue	5,974,617	5,906,241
Total operating revenue	270,403,512	251,904,279
Operating expenses:		
Salaries, wages, and benefits	135,657,311	133,070,747
Purchased services and other	72,154,837	61,179,054
Supplies	41,379,335	35,843,320
Depreciation and amortization	19,949,322	20,267,029
Interest	11,791,254	12,451,857
Total operating expenses	280,932,059	262,812,007
(Loss) from operations	(10,528,547)	(10,907,728)
Nonoperating revenue (expenses):		
Investment earnings	4,342,608	7,331,158
Rental income from leases	3,328,975	1,682,263
Community benefit services	(480,790)	(426,282)
Gain on sale of property and equipment	61,014	150,597
Contributions	76,594	518,500
Equity in net income of associated companies (Note 11)	910,262	194,070
Grant revenue	298,907	590,831
Change in fair value of interest rate swap agreement (Note 7)	(894,483)	-
	7,643,087	10,041,137
Excess of revenue (under) expenses and loss before transfers and minority interest	(2,885,460)	(866,591)
Transfers to Jefferson Parish (Note 3)	(1,062,337)	(1,064,214)
Minority interest in net income of related organizations	(627,119)	(805,640)
Change in net assets	(4,574,916)	(2,736,445)
Net assets:		
Beginning	292,237,059	294,973,504
Ending	\$ 287,662,143	\$ 292,237,059

See Notes to Combined Basic Financial Statements.

**East Jefferson General Hospital
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**Combined Statements of Cash Flows
Years Ended December 31, 2004 and 2003**

	2004	2003
Cash Flows from Operating Activities:		
Receipts from patients and third-party payors	\$ 262,112,508	\$ 242,657,384
Payments to suppliers	(116,449,779)	(98,557,971)
Payments to employees	(134,528,927)	(132,839,852)
Other receipts	7,662,033	5,369,535
Net cash provided by operating activities	18,795,835	16,629,096
Cash Flows from Capital and Related Financing Activities:		
Purchase of capital assets	(42,813,952)	(6,646,720)
Proceeds from disposals of capital assets	100,107	197,246
Payment of debt issuance costs	(373,317)	-
Proceeds from issuance of long-term debt	5,755,000	-
Principal payments on long-term debt	(10,446,218)	(5,271,536)
Interest payments on long-term debt	(12,508,880)	(12,724,762)
Net cash (used in) capital and related financing activities	(60,287,260)	(24,445,772)
Cash Flows from Non-Capital Financing Activities:		
Contributions received	76,594	518,500
Grants received	298,907	590,831
Transfers to Jefferson Parish	(1,062,337)	(1,064,214)
Payments for community benefit services	(480,790)	(426,282)
Proceeds from (distributions to) minority interest	654,500	(1,209,866)
Net cash (used in) non-capital financing activities	(513,126)	(1,591,031)
Cash Flows from Investing Activities:		
Investment earnings	9,794,293	11,430,859
Purchase of investments	(4,215,159,510)	(2,334,713,536)
Proceeds from sales and maturities of investments	4,238,372,254	2,334,265,326
Distributions from associated companies	120,255	260,693
Net increase in deferred compensation, life insurance, and other	396,203	627,141
Rental income	3,328,975	1,682,263
Net cash provided by investing activities	36,852,470	13,552,746
Increase (decrease) in cash and cash equivalents	(5,152,081)	4,145,039
Cash and cash equivalents:		
Beginning	8,309,445	4,164,406
Ending	\$ 3,157,364	\$ 8,309,445

(Continued)

**East Jefferson General Hospital
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**Combined Statements of Cash Flows (Continued)
Years Ended December 31, 2004 and 2003**

	2004	2003
Reconciliation of operating (loss) to net cash provided by operating activities:		
Cash Flows from Operating Activities:		
(Loss) from operations	\$ (10,528,547)	\$ (10,907,728)
Adjustments to reconcile (loss) from operations to net cash provided by operating activities:		
Depreciation and amortization	19,949,322	20,267,029
Interest expense	11,791,254	12,451,857
(Increase) decrease in:		
Patient receivables	(2,857,387)	2,782,707
Other receivables	1,687,416	(536,706)
Inventories	94,002	(1,442,078)
Prepaid expenses	(557,510)	(279,292)
Increase (decrease) in:		
Accounts payable	2,527,128	185,773
Third-party payor settlements	541,000	(6,123,361)
Accrued expenses	(4,979,227)	1,811,055
Deferred compensation and executive benefits, retirement benefits, and self-insurance reserves	1,128,384	(1,580,160)
Net cash provided by operating activities	\$ 18,795,835	\$ 16,629,096
Schedule of Noncash Investing Activities, (decrease) in fair value of investments	\$ (6,566,648)	\$ (7,137,632)
Schedule of Noncash Capital and Related Financing Activities, capital lease obligation incurred for acquisition of equipment	341,500	-

See Notes to Combined Basic Financial Statements.

**East Jefferson General Hospital
and Related Organizations**

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 53.5% ownership interest in PET Scan as of December 31, 2004 and 2003.

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, 2004 and 2003.

East Jefferson Ambulatory Surgery Center, LLC (EJASC, LLC) was formed in 2004 and shall continue perpetually. EJASC, LLC is in the process of establishing a surgery center on the Organization's campus. The Hospital has a 51% ownership interest in EJASC, LLC as of December 31, 2004.

The Hospital, PET Scan, EJPN, LLC, and EJASC, 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, EJPN, LLC, and EJASC, 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).

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

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

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.

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 \$29,639,070 and \$23,494,316 for the years ended December 31, 2004 and 2003, 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.

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

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 \$396,000 and \$158,000 during the years ended December 31, 2004 and 2003, 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 \$229,027,000 and \$225,714,000 as of December 31, 2004 and 2003, 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.

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

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 at amounts less than its established rates.

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.

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

Note 2. Net Patient Service Revenue

Approximately 89% and 87% of the Hospital's net patient service revenue for the years ended December 31, 2004 and 2003, 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, 2000.

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, 1999.

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.

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

Note 2. Net Patient Service Revenue (Continued)

A summary of the Organization's net patient revenue for the years ended December 31, 2004 and 2003 is as follows:

	2004	2003
Gross patient service revenue	\$ 766,836,759	\$ 674,044,494
Less discounts, allowances, and estimated contractual adjustments under third-party reimbursement programs	472,768,794	404,552,140
Less provision for bad debts	29,639,070	23,494,316
	<u>\$ 264,428,895</u>	<u>\$ 245,998,038</u>

Contractual adjustment expenses for the years ended December 31, 2004 and 2003 include 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 \$3,404,000 and \$1,642,000 for the years ended December 31, 2004 and 2003, respectively, 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, 2004 and 2003, was approximately \$3,263,000 and \$3,885,000, 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 \$40,552,000 and \$32,116,000 for the years ended December 31, 2004 and 2003, 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 2004 and 2003 to the Parish to fund a medical facility at the Parish prison; additional transfers of \$62,337 and \$64,214 for the years ended December 31, 2004 and 2003, 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 \$250,000 of certificates of deposits, was \$3,407,364 and the bank balance was \$8,655,961 as of December 31, 2004. The bank balances of deposits as of December 31, 2004 were entirely covered by insurance or collateral held by financial institutions in the Organization's name.

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

Note 4. Cash and Investments (Continued)

The Organization's cash, cash equivalents, and investment balances as of December 31, 2004 and 2003 consist of the following:

	2004	2003
Cash and cash equivalents	\$ 3,157,364	\$ 8,309,445
Money market mutual accounts	11,047,771	9,930,678
U.S. government obligations	202,525,513	233,034,844
Certificates of deposit, with maturities of more than three months when purchased	250,000	125,000
Escrow reinvestment agreement	55,138,560	54,535,751
	<u>\$ 272,119,208</u>	<u>\$ 305,935,718</u>

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

	2004	2003
Current assets:		
Cash and cash equivalents	\$ 3,157,364	\$ 8,309,445
Short-term investments	22,189,553	47,933,801
Assets limited as to use	246,772,291	249,692,472
	<u>\$ 272,119,208</u>	<u>\$ 305,935,718</u>

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, 2004 the Organization's investments, by category of risk, were as follows:

	Credit Risk Category			Total Fair Value
	(1)	(2)	(3)	
Securities type:				
U.S. government obligations	\$ -	\$ 202,525,513	\$ -	\$ 202,525,513
Investments not subject to categorization:				
Escrow reinvestment agreement				55,138,560
Money market mutual funds				11,047,771
				<u>\$ 268,711,844</u>

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

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

Note 5. Composition of Patient Receivables

Patient receivables as of December 31, 2004 and 2003 consist of the following:

	2004	2003
Patients	\$ 108,429,679	\$ 99,909,589
Less estimated third-party contractual adjustments	53,245,790	46,554,041
Less allowance for doubtful accounts	17,052,879	18,081,925
	<u>\$ 38,131,010</u>	<u>\$ 35,273,623</u>

Note 6. Capital Assets

Capital assets activity as of and for the years ended December 31, 2004 and 2003 is as follows:

	December 31, 2003	Additions	Transfers and Disposals	December 31, 2004
Capital assets, not being depreciated:				
Land	\$ 10,718,178	\$ 1,700,000	\$ -	\$ 12,418,178
Construction in progress	3,235,395	8,230,172	-	11,465,567
Total capital assets, not being depreciated	<u>13,953,573</u>	<u>9,930,172</u>	<u>-</u>	<u>23,883,745</u>
Capital assets, being depreciated:				
Land improvements	5,761,618	96,677	-	5,858,295
Buildings	204,134,795	20,299,622	-	224,434,417
Fixed equipment	65,151,864	660,444	(12,187,135)	53,625,173
Major movable equipment	126,310,020	12,168,537	(11,709,843)	126,768,714
Minor equipment	2,496,736	-	(2,065,604)	431,132
Total capital assets, being depreciated	<u>403,855,033</u>	<u>33,225,280</u>	<u>(25,962,582)</u>	<u>411,117,731</u>
Less accumulated depreciation for:				
Land improvements	3,459,975	279,850	-	3,739,825
Buildings	77,688,366	6,898,902	-	84,587,268
Fixed equipment	60,363,263	1,342,223	(12,187,135)	49,518,351
Major movable equipment	85,209,732	10,999,119	(11,670,750)	84,538,101
Minor equipment	2,467,078	18,021	(2,065,604)	419,495
Total accumulated depreciation	<u>229,188,414</u>	<u>19,538,115</u>	<u>(25,923,489)</u>	<u>222,803,040</u>
Total capital assets, being depreciated, net	174,666,619	13,687,165	(39,093)	188,314,691
Organization capital assets, net	<u>\$ 188,620,192</u>	<u>\$ 23,617,337</u>	<u>\$ (39,093)</u>	<u>\$ 212,198,436</u>

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

Note 6. Capital Assets (Continued)

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. As of December 31, 2004 approximately \$9,355,000 of the construction in process relates to this project.

	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

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

Note 7. Long-Term Debt and Interest Rate Swap Agreement

Long-term debt as of December 31, 2004 and 2003 consists of:

	2004	2003
Hospital Revenue Refunding Bonds, Series 2004 (A) (E)	\$ 5,755,000	\$ -
Hospital Revenue Bonds, Series 1998 (B) (E)	117,645,000	120,195,000
Hospital Revenue Refunding Bonds, Series 1993 (C) (E)	40,350,000	47,795,000
Customized Purchase Hospital Revenue Bonds, Series 1985 (D) (E)	55,000,000	55,000,000
Capital lease obligation, MRI (F)	4,244,681	4,382,947
Capital lease obligation, parking garage (G)	5,911,646	6,164,484
Capital lease obligations, laboratory equipment (H)	281,386	-
	<u>229,187,713</u>	<u>233,537,431</u>
Less current maturities	61,033,540	5,541,104
	<u>\$ 168,154,173</u>	<u>\$ 227,996,327</u>

- (A) The Hospital issued \$5,755,000 of Hospital Revenue Refunding Bonds, Series 2004. The proceeds of these bonds were used to refund a portion of the Hospital Revenue Bonds, Series 1993 and pay issuance costs incurred. The Series 2004 Bonds bear interest at a variable rate which was 2.02% as of December 31, 2004 and are secured by a letter of credit which has been issued in the amount of \$5,849,603. Annual principal payments are due in amounts ranging from \$145,000 to \$3,610,000 through July 2009.
- (B) 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 \$2,650,000 to \$8,130,000 through July 2028.
- (C) 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 \$1,330,000 to \$5,020,000 through July 2016.
- (D) 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, 2004. The entire principal balance is due December 2005.
- (E) The Series 2004, 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.
- (F) 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 \$2,530,000 as of December 31, 2004.

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

Note 7. Long-Term Debt and Interest Rate Swap Agreement (Continued)

- (G) 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 \$3,421,000 as of December 31, 2004.
- (H) The Hospital has entered into two capital lease agreements for the purchase of laboratory equipment. The leases require total monthly payments of \$6,635 through December 2008. The leases are collateralized by laboratory equipment with an amortized cost of approximately \$274,000 as of December 31, 2004.

Long-term debt activity as of and for the years ended December 31, 2004 and 2003 is as follows:

	December 31, 2003	Borrowings	Payments	December 31, 2004	Due Within One Year
Hospital Revenue Refunding Bonds, Series 2004	\$ -	\$ 5,755,000	\$ -	\$ 5,755,000	\$ 1,555,000
Hospital Revenue Bonds, Series 1998	120,195,000	-	(2,550,000)	117,645,000	2,650,000
Hospital Revenue Refunding Bonds, Series 1993	47,795,000	-	(7,445,000)	40,350,000	1,330,000
Customized Purchase Hospital Revenue Bonds, Series 1985	55,000,000	-	-	55,000,000	55,000,000
Capital lease obligation, MRI	4,382,947	-	(138,266)	4,244,681	158,716
Capital lease obligation, parking garage	6,164,484	-	(252,838)	5,911,646	275,870
Capital lease obligations, laboratory equipment	-	341,500	(60,114)	281,386	63,954
	<u>\$ 233,537,431</u>	<u>\$ 6,096,500</u>	<u>\$ (10,446,218)</u>	<u>\$ 229,187,713</u>	<u>\$ 61,033,540</u>
	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
	<u>\$ 238,808,967</u>	<u>\$ -</u>	<u>\$ (5,271,536)</u>	<u>\$ 233,537,431</u>	<u>\$ 5,541,104</u>

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

Note 7. Long-Term Debt and Interest Rate Swap Agreement (Continued)

The aggregate principal and interest maturities, including capital leases, of long-term debt as of December 31, 2004 are as follows:

	Principal	Interest
Year ending December 31:		
2005	\$ 61,033,540	\$ 11,253,042
2006	6,475,142	8,090,451
2007	6,762,183	7,807,080
2008	7,084,911	7,496,613
2009	7,470,946	7,173,445
2010 to 2014	43,142,254	30,356,911
2015 to 2019	36,558,737	19,706,731
2020 to 2024	30,395,000	12,273,750
2025 to 2029	30,265,000	3,875,500
	\$ 229,187,713	\$ 108,033,523

The future minimum rental commitments payable as of December 31, 2004 on capital lease obligations are as follows:

Year ending December 31:	
2005	\$ 1,903,105
2006	1,921,026
2007	1,924,844
2008	1,931,088
2009	1,820,492
2010 to 2014	9,193,583
2015 to 2017	4,349,018
Total minimum lease payments	23,043,156
Less amount representing executory costs (i.e., operating expenses) included in total minimum lease payments	5,547,451
Net minimum lease payments	17,495,705
Less amount representing interest	7,057,992
Present value of net minimum lease payments	\$ 10,437,713

**East Jefferson General Hospital
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Notes to Combined Basic Financial Statements

Note 7. Long-Term Debt and Interest Rate Swap Agreement (Continued)

The Hospital's interest rate swap agreement as of December 31, 2004 is summarized as follows:

Effective October 12, 2004, the Hospital is a party to an interest rate swap agreement for a notional amount of \$46,890,000. Under this arrangement, which terminates July 1, 2016, the Hospital pays a fixed rate of 3.331% and the counterparty pays a floating rate equal to 68% of the one-month LIBOR (2.28% as of December 31, 2004), both of which are applied to the notional principal amount.

The fair value of the swap liability as of December 31, 2004 is \$894,483. The change in the fair value of the swap agreement is included in nonoperating revenue in the accompanying statements of revenue, expenses, and changes in net assets. The interest settlements received by the Hospital, or paid to the counterparty, are included as a component of interest expense. The net settlements reduced interest expense by approximately \$69,000 for the year ended December 31, 2004.

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, 2004 and 2003, the Hospital's total payroll for all employees was approximately \$108,233,000 and \$108,901,000, respectively, and the Hospital's total covered payroll (for pension plan participants) was approximately \$88,164,000 and \$80,774,000, 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.

In November 2004, the Board of Directors of the Hospital adopted a resolution to revise the Plan participation eligibility requirements to exclude employees hired or rehired subsequent to January 1, 2005. In January 2005, the Board of Directors adopted a resolution to freeze the Plan effective April 1, 2005. This resolution has the immediate effect of reducing the actuarially determined recommended contribution to the Plan for 2005. The Board of Directors also resolved to increase base contributions to the Employee Savings Plan on a graduated scale based on length of service.

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

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 1.6% and 3.7% for the years ended December 31, 2004 and 2003, respectively.

Significant actuarial assumptions used in 2004 and 2003 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.

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

Note 8. Retirement and Benefit Plans (Continued)

Annual pension costs, net pension obligation, and the accrual for retirement benefits for 2004 and 2003 are as follows:

	2004	2003
Annual required contribution for current year	\$ 2,955,561	\$ 3,476,412
Interest on net pension obligation	2,132	2,149
Adjustment to annual required contribution	(2,334)	(2,353)
Annual pension costs	2,955,359	3,476,208
Contribution made	2,953,227	3,476,412
(Increase) decrease in net pension obligation	2,132	(204)
Net pension obligation, beginning of year	25,081	25,285
Net pension obligation, ending of year	\$ 27,213	\$ 25,081

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 \$2,955,000 and \$3,476,000 for the years ended December 31, 2004 and 2003, 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
12/31/02	\$ 2,775,894	100%	\$ 25,285
12/31/03	3,476,208	100	25,081
12/31/04	2,955,359	100	27,213

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

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), 403(b), 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 pre-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. Beginning April 1, 2005, the Hospital will increase its contribution to a graduated scale of 2% to 5% of compensation based on employee length of service.

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 \$3,080,489 and \$2,340,723 for the years ended December 31, 2004 and 2003, 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 2004 or 2003. Assets and liabilities associated with the deferred compensation plan were \$752,218 and \$929,998 as of December 31, 2004 and 2003, respectively. Liabilities associated with the SERP were \$1,177,391 and \$1,201,912 as of December 31, 2004 and 2003, respectively. These amounts are included in noncurrent assets and liabilities in the accompanying combined basic financial statements.

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

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

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. In 2003, the Hospital was not insured under a stop-loss policy and was therefore fully self-insured. In 2004, the Hospital had stop-loss insurance coverage for claims in excess of \$300,000 per individual per plan year. The following is a summary of estimated claims liability for the years ended December 31, 2004 and 2003. The Hospital has recorded a current liability for open claims and claims incurred but not reported.

	2004	2003
Balance, beginning	\$ 2,218,315	\$ 2,004,905
Claims expense	13,474,535	11,200,000
Claims payment	(13,690,595)	(10,986,590)
Balance, ending	<u>\$ 2,002,255</u>	<u>\$ 2,218,315</u>

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, 2004 and 2003. The Hospital has recorded a current liability for open claims and claims incurred but not reported which is included in other accrued expenses.

	2004	2003
Balance, beginning	\$ 577,399	\$ 486,198
Claims expense	987,564	757,883
Claims payment	(779,826)	(666,682)
Balance, ending	<u>\$ 785,137</u>	<u>\$ 577,399</u>

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

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

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 for claims made on or prior to December 31, 2003 and \$1,000,000 for claims made subsequent to December 31, 2003. The following is a summary of estimated claims liability for the years ended December 31, 2004 and 2003. The Hospital has recorded the liability in noncurrent liabilities.

	2004		2003
Balance, beginning	\$ 1,579,897	\$	2,151,397
Claims expense	727,766		(450,000)
Claims payment	-		(121,500)
Balance, ending	<u>\$ 2,307,663</u>	<u>\$</u>	<u>1,579,897</u>

Other self-insurance programs:

During 2004 the Hospital became self-insured for general liability and vehicle liability. The self-insured claims are processed through a plan administrator. The following is a summary of estimated claims liability from the date at which the Hospital became self-insured through December 31, 2004. The Hospital has recorded the liability in noncurrent liabilities.

Balance, beginning	\$ -
Claims expense	600,787
Claims payment	-
Balance, ending	<u>\$ 600,787</u>

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

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

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. A Proof of Loss was filed with the Hospital's insurance company in March 2003 and a recovery of \$437,079 was received in February 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.

Lease commitments:

The Organization leases property and various equipment under leases that expire at various dates through January 2034.

As of December 31, 2004, the total minimum rental commitment under operating lease agreements is approximately \$8,216,000 which is due as follows:

Year ending December 31:	
2005	\$ 2,168,000
2006	1,923,000
2007	940,000
2008	268,000
2009	215,000
Thereafter	2,702,000
	<u>\$ 8,216,000</u>

Total rent expense for the above leases for the years ended December 31, 2004 and 2003 was approximately \$2,080,000 and \$2,078,000, respectively.

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

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

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 2006 and June 2007, respectively.

As of December 31, 2004, the total minimum commitment under these agreements is approximately \$12,202,000 which is due as follows:

Year ending December 31:	
2005	\$ 6,346,000
2006	5,768,000
2007	88,000
	<u>\$ 12,202,000</u>

Total expense for the above agreements for the years ended December 31, 2004 and 2003 was approximately \$6,797,000 and \$4,290,000, respectively.

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, 2004 and 2003 was as follows:

	<u>2004</u>	<u>2003</u>
Medicare	37.1%	40.7%
Medicaid	9.1	7.2
Managed care	25.7	26.0
Other third-party payors	17.3	15.6
Patients	10.8	10.5
	<u>100.0%</u>	<u>100.0%</u>

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

Note 11. Investment in Associated Companies

The Organization's investment in associated companies as of December 31, 2004 and 2003 consist of the following:

	2004	2003
Associated Hospital Services (laundry service)	\$ 2,232,663	\$ 1,465,064
Metairie Medical Office Limited Partnership (medical office building)	497,267	474,859
	<u>\$ 2,729,930</u>	<u>\$ 1,939,923</u>

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

	2004	2003
Associated Hospital Services	\$ 767,599	\$ 66,610
Metairie Medical Office Limited Partnership	142,663	127,460
	<u>\$ 910,262</u>	<u>\$ 194,070</u>

Note 12. 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, 2004 and 2003 are as follows:

	2004	2003
Program	\$ 153,902,424	\$ 143,153,977
General and administrative	127,029,635	119,658,030
	<u>\$ 280,932,059</u>	<u>\$ 262,812,007</u>

**East Jefferson General Hospital
and Related Organizations**

Notes to Combined Basic Financial Statements

Note 13. New Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements

The Organization adopted Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, during the year ended December 31, 2004, which had no effect on the Organization's combined basic financial statements.

As of December 31, 2004, the Governmental Accounting Standards Board has also issued several statements not yet implemented by the Organization. The Statements which might impact the Organization are as follows:

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 Organization 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.

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued April 2004, will be effective for the Organization beginning with its year ending December 31, 2006. This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supersedes existing guidance.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued June 2004, will be effective for the Organization beginning with its year ending December 31, 2007. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.

Statement No. 46, *Net Assets Restricted by Enabling Legislation*, an amendment of GASB Statement No. 34, will be effective for the Organization beginning with its year ending December 31, 2006. The purpose of Statement No. 46 is to help organizations determine when net assets have been restricted to a particular use by the passage of enabling legislation and to specify how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation.

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, 2004**

Schedule of Funding Progress	2004	2003	2002
Actuarial valuation date	1/1/05	1/1/04	1/1/03
Actuarial value of assets (AVA)	\$ 34,833,733	\$ 32,338,260	\$ 26,259,440
Actuarial accrued liability (AAL)	\$ 50,355,490	\$ 46,598,037	\$ 44,129,053
Unfunded AAL (UAAL)	\$ 15,521,757	\$ 14,259,777	\$ 17,869,613
Funded ratio	69.2%	69.4%	59.5%
Annual covered payroll	\$ 88,164,146	\$ 80,774,461	\$ 82,385,934
UAAL as % of payroll	17.6%	17.7%	21.7%

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, 2005.
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, 2004**

Assets	EJGH	EJPN, LLC	PET Scan	EJASC, LLC	Eliminations	Combined
Current Assets:						
Cash and cash equivalents	\$ 149,171	\$ 74,441	\$ 1,038,870	\$ 1,894,882	\$ -	\$ 3,157,364
Short-term investments	22,189,553	-	-	-	-	22,189,553
Receivables:						
Patients, net	37,314,204	-	816,806	-	-	38,131,010
Other	1,252,190	159,773	-	-	(278,571)	1,133,392
Estimated third-party payor settlements	3,397,312	-	-	-	-	3,397,312
Assets limited as to use, current portion	64,803,454	-	-	-	-	64,803,454
Inventories	5,934,822	-	-	-	-	5,934,822
Prepaid expenses	5,481,347	-	3,991	-	-	5,485,338
Total current assets	140,522,053	234,214	1,859,667	1,894,882	(278,571)	144,232,245
Noncurrent Assets:						
Assets limited as to use:						
Under bond indenture	76,810,645	-	-	-	-	76,810,645
Board-designated for specific purposes	169,961,646	-	-	-	-	169,961,646
	246,772,291	-	-	-	-	246,772,291
Less portion required for current liabilities	64,803,454	-	-	-	-	64,803,454
	181,968,837	-	-	-	-	181,968,837
Capital assets, net	210,227,129	-	1,971,307	-	-	212,198,436
Debt issuance costs, net of accumulated amortization	4,052,253	-	-	-	-	4,052,253
Investment in related organizations and associated companies *	7,855,144	-	-	-	(5,125,214)	2,729,930
Deferred compensation and life insurance	2,757,352	-	-	-	-	2,757,352
Other receivables	542,876	-	-	109,491	-	652,367
Total noncurrent assets	407,403,591	-	1,971,307	109,491	(5,125,214)	404,359,175
	\$ 547,925,644	\$ 234,214	\$ 3,830,974	\$ 2,004,373	\$ (5,403,785)	\$ 548,591,420

* EJGH carries its investment in EJPN, LLC at \$2,063,462 as of December 31, 2004. This investment should be carried at \$109,656. The effects of this investment have been properly eliminated in the combined balance sheet as of December 31, 2004.

Liabilities and Net Assets	EJGH	EJPN, LLC	PET Scan	EJASC, LLC	Eliminations	Combined
Current Liabilities:						
Current maturities of long-term debt	\$ 61,033,540	\$ -	\$ -	\$ -	\$ -	\$ 61,033,540
Accounts payable	10,479,957	118,786	10,204	-	(278,571)	10,330,376
Accrued expenses:						
Salaries and wages	1,640,273	-	-	-	-	1,640,273
Paid leave	3,326,042	-	-	-	-	3,326,042
Health insurance claims	2,002,255	-	-	-	-	2,002,255
Interest	4,268,454	-	-	-	-	4,268,454
Other	1,627,388	-	53,320	-	-	1,680,708
Total current liabilities	84,377,909	118,786	63,524	-	(278,571)	84,281,648
Noncurrent Liabilities:						
Deferred compensation and executive benefits	1,929,609	-	-	-	-	1,929,609
Retirement benefits	27,213	-	-	-	-	27,213
Estimated self-insurance reserves	2,908,450	-	-	-	-	2,908,450
Long-term debt, less current maturities	168,154,173	-	-	-	-	168,154,173
Interest rate swap agreement	894,483	-	-	-	-	894,483
Minority interest in related organizations	-	-	-	-	2,733,701	2,733,701
Total noncurrent liabilities	173,913,928	-	-	-	2,733,701	176,647,629
Total liabilities	258,291,837	118,786	63,524	-	2,455,130	260,929,277
Net Assets:						
Invested in capital assets, net of related debt	40,020,232	-	1,971,307	-	-	41,991,539
Restricted under bond indenture	21,672,085	-	-	-	-	21,672,085
Unrestricted *	227,941,490	115,428	1,796,143	2,004,373	(7,858,915)	223,998,519
Total net assets	289,633,807	115,428	3,767,450	2,004,373	(7,858,915)	287,662,143
	\$ 547,925,644	\$ 234,214	\$ 3,830,974	\$ 2,004,373	\$ (5,403,785)	\$ 548,591,420

**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 Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended December 31, 2004**

	EJGH	EJPN, LLC	PET Scan	EJASC, LLC	Eliminations	Combined
Operating revenue:						
Net patient service revenue	\$ 261,487,812	\$ -	\$ 2,941,083	\$ -	\$ -	\$ 264,428,895
Other operating revenue	5,974,617	-	-	-	-	5,974,617
Total operating revenue	267,462,429	-	2,941,083	-	-	270,403,512
Operating expenses:						
Salaries, wages, and benefits	135,657,311	-	-	-	-	135,657,311
Purchased services and other	70,807,440	13,523	1,359,609	473	(26,208)	72,154,837
Supplies	41,379,335	-	-	-	-	41,379,335
Depreciation and amortization	19,977,563	-	261,763	-	(290,004)	19,949,322
Interest	11,791,254	-	-	-	-	11,791,254
Total operating expenses	279,612,903	13,523	1,621,372	473	(316,212)	280,932,059
Income (loss) from operations	(12,150,474)	(13,523)	1,319,711	(473)	316,212	(10,528,547)
Nonoperating revenue (expenses):						
Investment earnings	4,335,590	611	1,561	4,846	-	4,342,608
Rental income from leases	3,328,975	26,208	-	-	(26,208)	3,328,975
Community benefit services	(480,790)	-	-	-	-	(480,790)
Gain on sale of property and equipment	61,014	-	-	-	-	61,014
Contributions	76,594	-	-	-	-	76,594
Equity in net income of related organizations and associated companies	1,627,891	-	-	-	(717,629)	910,262
Grant revenue	298,907	-	-	-	-	298,907
Change in fair value of interest rate swap agreement	(894,483)	-	-	-	-	(894,483)
	8,353,698	26,819	1,561	4,846	(743,837)	7,643,087
Excess of revenue over (under) expenses and income (loss) before capital contribution (distribution), transfers, and minority interest	(3,796,776)	13,296	1,321,272	4,373	(427,625)	(2,885,460)
Capital contribution (distribution)	-	-	(700,000)	2,000,000	(1,300,000)	-
Transfers to Jefferson Parish	(1,062,337)	-	-	-	-	(1,062,337)
Minority interest in net income of related organizations	-	-	-	-	(627,119)	(627,119)
Change in net assets	(4,859,113)	13,296	621,272	2,004,373	(2,354,744)	(4,574,916)
Net assets:						
Beginning	294,492,920	102,132	3,146,178	-	(5,504,171)	292,237,059
Ending	\$ 289,633,807	\$ 115,428	\$ 3,767,450	\$ 2,004,373	\$ (7,858,915)	\$ 287,662,143

**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
Grant revenue	590,831	-	-	-	590,831
Equity in net income of related organizations and associated companies	1,137,769	-	-	(943,699)	194,070
	10,982,887	26,572	1,585	(969,907)	10,041,137
Excess of revenue over (under) expenses and 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**

**Statements of Revenue, Expenses, and Changes in Net Assets Information
(Hospital Only)
Years Ended December 31, 2004 and 2003**

Gross Patient Service Revenue, Summary by Department	2004		
	Inpatient	Outpatient	Total
Routine care services:			
Medical and surgical	\$ 80,708,342	\$ 4,461,662	\$ 85,170,004
Intensive care	18,542,793	3,612	18,546,405
Coronary care	5,134,138	175	5,134,313
Psychiatric care	5,826,180	572,382	6,398,562
Nursery	12,534,838	484	12,535,322
Rehabilitation	5,289,470	-	5,289,470
Skilled nursing facility	5,449,470	-	5,449,470
	<u>133,485,231</u>	<u>5,038,315</u>	<u>138,523,546</u>
Ancillary services:			
Ambulance	1,454,140	5,835,566	7,289,706
Anesthesiology	13,505,791	12,157,469	25,663,260
Blood bank	6,016,412	1,698,543	7,714,955
Cardiology	48,745,163	22,592,221	71,337,384
Central supply	5,176,996	2,632,539	7,809,535
Dialysis	3,119,950	124,352	3,244,302
Electroencephalography	304,523	266,144	570,667
Emergency services	8,573,777	20,669,420	29,243,197
Endoscopy	2,660,815	7,809,773	10,470,588
Labor and delivery	7,921,899	806,735	8,728,634
Laboratory	27,652,113	23,661,343	51,313,456
Magnetic resonance imaging	2,656,461	7,608,347	10,264,808
Operating and recovery	68,255,754	70,620,302	138,876,056
Outpatient screening of wellness	-	763,699	763,699
Pharmacy and IV solution	81,229,997	24,543,250	105,773,247
Physical therapy	9,989,328	2,770,230	12,759,558
Physician network revenue	-	18,281,243	18,281,243
Radiation therapy	1,009,471	11,811,494	12,820,965
Radiology	28,442,097	50,164,855	78,606,952
Respiratory care	18,581,824	3,613,529	22,195,353
Wound care center	16,636	2,505,953	2,522,589
	<u>335,313,147</u>	<u>290,937,007</u>	<u>626,250,154</u>
	<u>\$ 468,798,378</u>	<u>\$ 295,975,322</u>	<u>764,773,700</u>
Less charity care			3,263,212
Gross patient service revenue			<u>761,510,488</u>
Less discounts, allowances, and estimated contractual adjustments under third-party reimbursement programs			470,423,082
Less provision for bad debts			29,599,594
Net patient service revenue			<u><u>\$ 261,487,812</u></u>

2003

	Inpatient	Outpatient	Total
\$	62,328,383	\$ 3,884,016	\$ 66,212,399
	15,759,122	420	15,759,542
	4,287,402	-	4,287,402
	5,150,300	472,326	5,622,626
	10,404,261	2,602	10,406,863
	5,582,183	-	5,582,183
	2,800,243	824	2,801,067
	<u>106,311,894</u>	<u>4,360,188</u>	<u>110,672,082</u>
	1,438,987	6,183,937	7,622,924
	10,365,558	10,213,721	20,579,279
	5,109,301	1,250,128	6,359,429
	43,234,550	18,412,015	61,646,565
	11,374,784	2,939,708	14,314,492
	2,356,048	47,437	2,403,485
	246,835	209,821	456,656
	7,329,936	18,648,422	25,978,358
	1,671,842	5,178,628	6,850,470
	7,221,046	986,936	8,207,982
	28,738,429	18,154,259	46,892,688
	2,609,718	6,037,102	8,646,820
	56,334,579	57,329,981	113,664,560
	-	633,180	633,180
	80,207,243	23,211,704	103,418,947
	9,163,725	3,116,910	12,280,635
	-	20,979,933	20,979,933
	945,638	11,380,678	12,326,316
	24,491,947	38,638,386	63,130,333
	19,698,519	3,006,942	22,705,461
	14,190	1,776,748	1,790,938
	<u>312,552,875</u>	<u>248,336,576</u>	<u>560,889,451</u>
\$	<u>418,864,769</u>	\$ <u>252,696,764</u>	671,561,533
			3,884,962
			<u>667,676,571</u>
			401,745,280
			23,403,468
			<u>\$ 242,527,823</u>

**East Jefferson General Hospital
And Related Organizations**

**Statements of Revenue, Expenses, and Changes in Net Assets Information
(Hospital Only)
Years Ended December 31, 2004 and 2003**

Other Revenue	2004	2003
Cafeteria	\$ 1,808,410	\$ 1,737,955
Educational fees	36,226	36,717
Special meals	672,124	808,190
Vending machines	358,651	372,718
LTAC services	751,806	671,974
Wellness Center membership fees	1,851,965	1,761,345
Elder Advantage fees	34,989	27,446
Miscellaneous	460,446	489,896
	\$ 5,974,617	\$ 5,906,241

**Provision for Discounts, Allowances, and Estimated
Contractual Adjustments under Third-Party
Reimbursement Programs**

Medicare contractual adjustments	\$ 228,771,970	\$ 204,960,961
Medicaid contractual adjustments	40,552,475	32,115,711
Managed care discounts	200,813,697	164,306,770
Obstetric package discounts	284,940	361,838
	\$ 470,423,082	\$ 401,745,280

**East Jefferson General Hospital
and Related Organizations**

**Statements of Revenue, Expenses, and Changes in Net Assets Information
(Hospital Only)
Years Ended December 31, 2004 and 2003**

Departmental Expenses	2004			
	Salaries, Wages and Benefits	Purchased Services and Other	Supplies	Total
Routine services:				
Medical and surgical	\$ 20,772,076	\$ 2,088,928	\$ 1,368,824	\$ 24,229,828
Intensive care	4,798,994	311,926	410,761	5,521,681
Coronary care	1,483,339	226,244	97,633	1,807,216
Psychiatric care	1,563,635	119,655	28,730	1,712,020
Nursery	2,984,481	101,280	221,274	3,307,035
Nursing administration	179,150	10,360	15,033	204,543
Rehabilitation	1,345,025	197,652	88,673	1,631,350
Skilled nursing facility	1,533,230	239,647	125,045	1,897,922
	<u>34,659,930</u>	<u>3,295,692</u>	<u>2,355,973</u>	<u>40,311,595</u>
Ancillary services:				
Ambulance	2,455,572	99,657	237,531	2,792,760
Anesthesiology	123,228	3,102,301	1,077,564	4,303,093
Blood bank	609,538	165,723	1,493,212	2,268,473
Cardiology	3,073,958	37,576	7,653,103	10,764,637
Central supply	336,174	321,472	1,457,929	2,115,575
Dialysis	-	685,704	7,734	693,438
Electroencephalography	62,684	6,567	6,289	75,540
Emergency services	4,055,498	401,822	530,166	4,987,486
Endoscopy	632,588	12,046	478,668	1,123,302
Labor and delivery	1,597,216	56,169	373,548	2,026,933
Laboratory	2,862,325	1,223,572	1,148,764	5,234,661
Magnetic resonance imaging	238,170	780,105	529,820	1,548,095
Operating and recovery	6,127,195	2,474,949	14,765,613	23,367,757
Occupational Medicine & Wellness Center	1,220,337	408,490	144,739	1,773,566
Pharmacy and IV solution	2,450,300	16,898,440	703,511	20,052,251
Physical therapy	2,419,528	108,011	67,671	2,595,210
Radiation therapy	716,766	230,209	142,478	1,089,453
Radiology	4,901,145	628,333	3,249,725	8,779,203
Respiratory care	3,273,234	471,841	422,422	4,167,497
Wound care center	439,258	38,901	103,747	581,906
	<u>\$ 37,594,714</u>	<u>\$ 28,151,888</u>	<u>\$ 34,594,234</u>	<u>\$ 100,340,836</u>

2003

Salaries, Wages and Benefits	Purchased Services and Other	Supplies	Total
\$ 20,011,723	\$ 1,098,765	\$ 1,112,404	\$ 22,222,892
4,474,198	245,114	256,260	4,975,572
1,360,709	98,040	66,285	1,525,034
1,366,642	187,618	24,947	1,579,207
2,867,253	146,073	201,398	3,214,724
175,457	5,428	18,479	199,364
1,337,075	200,150	74,796	1,612,021
939,035	65,985	59,240	1,064,260
32,532,092	2,047,173	1,813,809	36,393,074

2,354,513	45,744	249,349	2,649,606
108,795	2,699,049	800,524	3,608,368
632,541	203,460	1,141,935	1,977,936
2,927,930	67,378	7,087,381	10,082,689
368,478	336,272	1,915,432	2,620,182
-	563,404	2,536	565,940
54,599	1,209	6,827	62,635
4,059,497	237,944	410,231	4,707,672
591,330	5,117	410,675	1,007,122
1,670,871	32,628	313,792	2,017,291
2,622,229	1,150,622	1,839,242	5,612,093
210,190	25,338	337,779	573,307
5,716,692	1,879,498	11,121,302	18,717,492
958,082	355,628	147,166	1,460,876
2,320,938	14,072,354	661,065	17,054,357
2,294,393	43,823	61,419	2,399,635
704,812	229,537	135,948	1,070,297
4,289,077	195,816	2,783,175	7,268,068
3,106,498	347,601	397,817	3,851,916
335,184	32,352	87,766	455,302
\$ 35,326,649	\$ 22,524,774	\$ 29,911,361	\$ 87,762,784

(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, 2004 and 2003**

Departmental Expenses	2004			
	Salaries, Wages and Benefits	Purchased Services and Other	Supplies	Total
General services:				
Dietary and cafeteria	\$ 2,218,724	\$ 162,229	\$ 1,966,443	\$ 4,347,396
Housekeeping	1,798,616	388,419	319,513	2,506,548
Laundry	-	191,501	20,890	212,391
Plant engineering and security	2,282,032	4,619,875	487,775	7,389,682
Utilities	-	3,868,362	-	3,868,362
	<u>6,299,372</u>	<u>9,230,386</u>	<u>2,794,621</u>	<u>18,324,379</u>
Fiscal and administrative services:				
Accounting	573,005	17,543	10,924	601,472
Administration	10,906,474	3,996,644	607,233	15,510,351
Information systems	159,423	9,552,967	152,941	9,865,331
Education	398,618	155,502	37,431	591,551
Employee benefits	27,423,928	-	-	27,423,928
Financial support services	917,909	79,833	4,520	1,002,262
Insurance	-	5,488,886	-	5,488,886
Medical records	1,766,575	660,898	129,786	2,557,259
Miscellaneous	-	646,595	-	646,595
Patient accounts	1,701,829	1,664,262	158,437	3,524,528
Personnel	1,408,779	270,854	34,555	1,714,188
Physician's network	9,810,335	2,592,874	192,703	12,595,912
Printing and duplication	99,753	29,689	239,553	368,995
Professional fees	-	2,481,588	-	2,481,588
Public relations	1,337,554	1,703,909	44,920	3,086,383
Purchasing	297,210	17,361	2,586	317,157
Telephone service	165,895	722,166	2,181	890,242
Volunteer services	136,008	47,903	16,737	200,648
	<u>57,103,295</u>	<u>30,129,474</u>	<u>1,634,507</u>	<u>88,867,276</u>
Total	<u>\$ 135,657,311</u>	<u>\$ 70,807,440</u>	<u>\$ 41,379,335</u>	<u>\$ 247,844,086</u>

2003

Salaries, Wages and Benefits	Purchased Services and Other	Supplies	Total
\$ 2,159,364	\$ 136,896	\$ 2,068,364	\$ 4,364,624
1,698,388	293,289	291,432	2,283,109
29,423	139,534	(66,745)	102,212
2,237,362	4,321,548	417,830	6,976,740
-	3,656,632	-	3,656,632
6,124,537	8,547,899	2,710,881	17,383,317
487,990	14,016	6,970	508,976
12,524,207	2,701,599	240,655	15,466,461
1,487,114	8,117,351	166,319	9,770,784
204,980	109,154	37,558	351,692
23,997,039	-	-	23,997,039
458,261	13,133	6,047	477,441
-	4,541,922	-	4,541,922
1,650,688	514,517	92,201	2,257,406
-	624,918	-	624,918
1,812,613	376,955	227,868	2,417,436
1,301,757	195,887	56,148	1,553,792
13,357,585	4,478,431	244,408	18,080,424
84,882	14,686	284,030	383,598
-	3,039,393	-	3,039,393
989,535	1,188,473	23,705	2,201,713
278,251	6,804	3,407	288,462
166,293	817,382	740	984,415
113,305	37,695	17,213	168,213
58,914,500	26,792,316	1,407,269	87,114,085
\$ 132,897,778	\$ 59,912,162	\$ 35,843,320	\$ 228,653,260

**East Jefferson General Hospital
and Related Organizations**

**Hospital Statistics
Years Ended December 31, 2004 and 2003**

	(Unaudited)	
	2004	2003
Total admissions	20,730	19,196
Inpatient admissions, excluding nursery	18,742	17,251
Nursery, newborn and neonatal	1,988	1,945
Total patient days of service	119,809	112,311
Inpatients, excluding nursery	115,510	108,055
Nursery, neonatal	4,077	3,722
Nursery, newborn	4,299	4,256
Special care units days of service, included in inpatient days of service above:		
Psychiatric unit	6,776	6,371
Rehabilitation unit	7,728	8,422
Skilled nursing facility unit	9,784	5,207
Average daily census	327.3	307.7
Inpatients, excluding nursery	315.6	296.0
Nursery, neonatal	11.1	10.2
Nursery, newborn	11.7	11.7
Percentage of occupancy, inpatients, excluding nursery	68.6%	68.5%
Medicare percentage of total patient days	54.3%	54.3%
Average length of stay (days):		
Inpatients, excluding nursery	6.2	6.3
Nursery, newborn and neonatal	4.2	4.1
Psychiatric unit	4.9	5.5
Rehabilitation unit	12.2	14.1
Skilled nursing facility unit	13.1	13.3

**East Jefferson General Hospital
and Related Organizations**

**Hospital Statistics
Years Ended December 31, 2004 and 2003**

	(Unaudited)	
	2004	2003
Ambulance runs	12,212	12,883
Anesthesiology cases	15,387	14,444
Blood bank units of service	82,512	120,200
Cardiology:		
Cath lab procedures	10,597	10,854
Noninvasive procedures	64,104	60,364
Deliveries, newborn	1,963	1,919
EEG tests	1,856	2,162
Emergency room visits	50,010	50,134
Endoscopy procedures	11,372	9,991
Laboratory units of service	923,809	1,768,069
Operations performed	15,441	14,553
Open heart operations	308	322
Physical therapy relative value units	47,611	47,652
Recovery room visits	10,602	10,230
Respiratory care units of service	325,276	352,395
Radiology:		
Diagnostic exams	86,473	88,451
CT scans	32,193	20,203
Nuclear medicine exams	7,982	7,650
Ultrasonic procedures	14,371	14,650
Special procedures	5,661	4,901
MRI procedures	8,050	6,097
Full-time equivalent employees	2,035	2,006

McGladrey & Pullen

Certified Public Accountants



Independent Auditor's Report On Internal Control over Financial Reporting and on Compliance and Other Matters 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 as of and for the year ended December 31, 2004, and have issued our report thereon dated February 18, 2005. 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.

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 financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of East Jefferson General Hospital in a separate letter dated February 18, 2005.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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 18, 2005

Laforte, Sekit, Ronig & Head

Metairie, Louisiana
February 18, 2005

**East Jefferson General Hospital
and Related Organizations**

**Summary Schedule of Prior Audit Findings
Year Ended December 31, 2004**

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.

Status: *Corrective action taken.*

McGladrey & Pullen

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, 2004, 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 RECOMMENDATION

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 the PET Scan Center to assign proper lives to the depreciable assets. If an agreement on the proper depreciable lives assigned cannot be reached, Hospital management should adjust the financial information being combined into the Hospital's financial statements to reflect the appropriate lives for these assets and the related depreciation.

Management's Response: Management will coordinate with the PET Scan Center to assure that appropriate lives are assigned to these depreciable assets.

PRIOR 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.

Status: RESOLVED

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.

Status: RESOLVED

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.

Status: IN PROCESS – Management continues to analyze systems that will become obsolete and the additional depreciation expense to be recorded.

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.

Status: RESOLVED

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 earnings 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.

Status: RESOLVED

Cash and Cash Disbursements

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.

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.

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 pursuing collection of these amounts.

Status: RESOLVED

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: 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.

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 calculation has not been performed.

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.

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. 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. Management has indicated this plan may be revised in 2005.

East Jefferson Physician Network

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.

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.

* * * * *

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 18, 2005

Laferte, Schit, Romig & Hurd

Metairie, Louisiana
February 18, 2005