BOSSIER MEDICAL CENTER

Notes to Financial Statements

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. Payment methods under these agreements include prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

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 are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Income Taxes — The Hospital qualifies as tax-exempt under existing provisions of the Internal Revenue Code, and accordingly its income is generally not subject to federal or state income taxes.

Proprietary Fund Accounting — The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Risk Management — The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Hospital is self-insured for certain risks as discussed in note 13.

Reclassifications — Certain reclassifications have been made in the 1995 financial statements to conform with the 1996 presentation.

Accounting Standards — Pursuant to Statement of Governmental Accounting Standards No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board issued after November 30, 1989.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(Continued)

KPMG

1550

LEGISLATIVE AUDITOR
97 JUL -2 PM 2:50

BOSSIER MEDICAL CENTER

Financial Statements

December 31, 1996 and 1995

(With Independent Auditors' Report Thereon)

KPMG Peat Marwick LLP

1900 Commercial National Tower
333 Texas Street
Shreveport, LA 71101-3692

Independent Auditors' Report

The Board of Directors
Bossier Medical Center:

We have audited the accompanying balance sheets of Bossier Medical Center as of December 31, 1996 and 1995, and the related statements of revenues, expenses and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of Bossier Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bossier Medical Center as of December 31, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report, dated March 19, 1997, on our consideration of Bossier Medical Center's internal control structure and a report, dated March 19, 1997, on its compliance with laws and regulations.

The accompanying schedule of historical pension information is not a required part of the basic financial statements, but is supplementary information required by the *Governmental Accounting Standards Board*. This information has not been audited by us and, accordingly, we express no opinion on this information.

KPMG Peat Marwick LLP

March 19, 1997

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of the Board of Directors and management of the Hospital and the State of Louisiana Legislative Auditor and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

March 19, 1997

KPMG Peat Marwick LLP

1900 Commercial National Tower
333 Texas Street
Shreveport, LA 71101-3692

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS AT THE FINANCIAL STATEMENT LEVEL

The Board of Directors
Bossier Medical Center:

We have audited the financial statements of Bossier Medical Center (the "Hospital") as of and for the year ended December 31, 1996, and have issued our report thereon dated March 19, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

KPMG Peat Marwick LLP

1800 Commercial National Tower
333 Texas Street
Shreveport, LA 71101-3692

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AT THE FINANCIAL STATEMENT LEVEL

The Board of Directors
Bossier Medical Center:

We have audited the financial statements of Bossier Medical Center (the "Hospital") as of and for the year ended December 31, 1996, and have issued our report thereon dated March 19, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors and management of the Hospital and the State of Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

March 19, 1997

BOSSIER MEDICAL CENTER

Balance Sheets

December 31, 1996 and 1995

Assets		1996	1995
Current assets:			
Cash	$	8,338,985	3,614,915
Patient accounts receivable, less allowances for doubtful accounts ($3,312,000 in 1996 and $3,226,000 in 1995)		10,667,034	12,141,626
Other receivables		11,000	21,000
Inventories		702,853	739,760
Assets whose use is limited required for current liabilities		700,010	820,193
Prepaid expenses		489,476	443,666
Total current assets		20,909,358	17,781,160
Assets whose use is limited:			
By Board for plant and equipment additions and replacements – interest-bearing deposits and investment securities		1,689,539	1,608,406
Under revenue bond ordinance – held by trustee		1,735,213	1,855,396
Pursuant to Louisiana Workers' Compensation Act		100,000	100,000
Total assets whose use is limited		3,524,752	3,563,802
Less assets whose use is limited required for current liabilities		(700,010)	(820,193)
		2,824,742	2,743,609
Property, plant and equipment:			
Land and land improvements		1,882,986	1,839,516
Buildings		12,454,542	12,366,749
Fixed equipment		12,577,166	12,562,940
Major movable equipment		21,873,823	21,319,206
Minor equipment		1,042,900	1,042,900
Construction in progress		108,558	130,804
		49,939,975	49,262,115
Less accumulated depreciation		29,419,078	26,589,477
		20,520,897	22,672,638
Other assets:			
Cost in excess of acquired net assets		881,721	881,721
Less accumulated amortization		356,446	162,334
		525,275	719,387
Unamortized bond issuance costs		172,758	210,860
Other		18,655	86,810
		716,688	1,017,057
	$	44,971,685	44,214,464

(Continued)

BOSSIER MEDICAL CENTER

Financial Statements

December 31, 1996 and 1995

Table of Contents

BOSSIER MEDICAL CENTER

Balance Sheets, Continued

Liabilities and Fund Balance	1996	1995
Current liabilities:		
Accounts payable and accrued expenses	$ 2,036,090	2,056,500
Pension plan contribution payable	132,000	—
Due to third-party payors	424,000	158,000
Payroll, payroll taxes and amounts withheld from employee compensation	734,918	582,762
Accrued vacation	822,348	822,348
Interest payable on revenue bonds	215,007	235,189
Current portion of revenue bonds payable	485,000	585,000
Due to City of Bossier City	—	130,953
Note payable	—	440,331
Total current liabilities	4,849,363	5,011,083
Revenue bonds payable	5,225,000	5,710,000
Fund balance	34,897,322	33,493,381
Commitments and contingencies		
	$ 44,971,685	44,214,464

See accompanying notes to financial statements.

BOSSIER MEDICAL CENTER

Statements of Revenues, Expenses and Changes in Fund Balance

Years ended December 31, 1996 and 1995

	1996	1995
Net patient service revenue	$ 50,593,534	53,018,279
Other revenue	434,876	503,222
Total revenue	51,028,410	53,521,501
Expenses:		
Routine services	4,933,570	5,430,365
Ancillary services	23,044,555	23,234,190
Household and property	2,438,481	2,242,899
Dietary and cafeteria	797,395	925,715
Administrative and general	9,377,106	8,718,067
Depreciation and amortization	3,023,713	2,960,183
Provision for doubtful accounts	5,276,129	4,894,689
Total expenses	48,890,949	48,406,108
Operating income	2,137,461	5,115,393
Nonoperating revenues (expenses):		
Other investment income	322,161	198,961
Interest expense	(488,079)	(546,098)
Rental expense	(101,205)	(99,023)
Gain on disposal of assets	—	488
Loss on sale of investments	—	(1,472,508)
Other, net	83,603	113,051
Total nonoperating expenses, net	(183,520)	(1,805,129)
Excess of revenues over expenses	1,953,941	3,310,264
Operating transfer to the City of Bossier City	(550,000)	(550,000)
Restricted donation	—	30,000
Fund balance at beginning of year	33,493,381	30,703,117
Fund balance at end of year	$ 34,897,322	33,493,381

See accompanying notes to financial statements.

BOSSIER MEDICAL CENTER

Statements of Cash Flows

Years ended December 31, 1996 and 1995

	1996	1995
Cash flows from operating activities:		
Operating income	$ 2,137,461	5,115,393
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,023,713	2,994,141
Provision for doubtful accounts	5,276,129	4,894,689
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	(3,801,537)	(6,312,469)
Decrease in other receivables	10,000	24,823
(Increase) decrease in inventories and prepaid expenses	(8,903)	252,577
Decrease in other assets	68,155	13,881
Decrease in accounts payable and accrued expenses	(20,410)	(145,124)
Increase (decrease) in pension plan contribution payable	132,000	(142,372)
Increase (decrease) in amounts due to third-party payors	266,000	(250,574)
Increase in payroll, payroll taxes and amounts withheld from employee compensation	152,156	148,744
Increase in accrued vacation	—	112,942
Net cash provided by operating activities	7,234,764	6,706,651
Cash flows from noncapital financing activities – operating transfer to the City of Bossier City	(680,953)	(654,761)
Cash flows from capital and related financing activities:		
Purchases of property, plant and equipment	(677,860)	(1,574,278)
Proceeds received from dispositions of property, plant and equipment	—	488
Acquisition of physician practices	—	(209,076)
Principal payments on debt incurred for capital purposes	(585,000)	(535,000)
Payments of note payable	(440,331)	(316,445)
Interest paid on revenue bonds and note payable	(470,159)	(522,080)
Restricted donation received	—	30,000
Net cash used by capital and related financing activities	(2,173,350)	(3,126,391)
Cash flows from investing activities:		
Maturities and sales of investments	—	1,566,672
Interest received on investments	322,161	184,643
Other	(17,602)	14,029
Net cash provided by investing activities	304,559	1,765,344
Increase in cash and cash equivalents	4,685,020	4,690,843
Cash and cash equivalents at beginning of year	7,078,717	2,387,874
Cash and cash equivalents at end of year	$ 11,763,737	7,078,717
Supplemental schedule of noncash investing activities:		
Acquisition of cost in excess of acquired net assets through assumption of note payable	$ —	672,645
Acquisition of fixed assets through assumption of note payable	$ —	71,486
Acquisition of inventory through assumption of note payable	$ —	12,645

See accompanying notes to financial statements.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of the Board of Directors and management of the Hospital and the State of Louisiana Legislative Auditor and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

March 19, 1997

Cost in Excess of Acquired Net Assets — Cost in excess of the fair market value of the net assets of physician practices acquired is amortized on a straight-line basis over the life of the physicians' contracts with the Hospital, not exceeding five years. Amortization expense totaled $194,112 and $162,334 in 1996 and 1995, respectively, and is included in depreciation and amortization expense in the statement of revenues, expenses and changes in fund balance.

Unamortized Bond Issuance Costs — The costs incurred to issue the 1987 Hospital Revenue Refunding Bonds are being amortized over the scheduled maturities of the bonds using the straight-line method, which approximates the interest method. Amortization expense totaled $38,102 and $41,941 in 1996 and 1995, respectively, and is included in interest expense in the statements of revenues, expenses and changes in fund balance.

Statements of Revenues, Expenses and Changes in Fund Balance — For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating revenues and expenses.

Net Patient Service Revenue — The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare.* Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services, certain outpatient services, and defined capital costs related to Medicare beneficiaries are paid based on cost reimbursement methodologies. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's cost reports have been audited and settled for all fiscal years through December 31, 1992.

- *Medicaid.* Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined per diem rates. These rates vary according to a hospital classification system that is based on bed size, teaching status and other factors. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicaid fiscal intermediary.

(Continued)

BOSSIER MEDICAL CENTER

Notes to Financial Statements

(2) Cash and Investments

As of December 31, 1996, the carrying amount of the Hospital's deposits was \$10,028,524 and the bank balance was \$9,453,533. This difference represents outstanding checks at December 31, 1996. All deposits are insured or collateralized with securities held in the Hospital's name by the trust department of a bank other than the pledging bank.

The Hospital has investments in mutual funds which have underlying investments consisting solely of securities of the United States government. These mutual fund investments have a balance of \$1,735,213 at December 31, 1996, and are included in cash and cash equivalents in the statements of cash flows. All of these investments were classified as Category 1, which indicates that the securities are insured or registered, or are held by the Hospital or its agent in the Hospital's name.

Cash and cash equivalents included in the statements of cash flows as of December 31, 1996 and 1995, follow:

	1996	1995
Cash	\$ 8,338,985	3,614,915
Assets whose use is limited:		
By Board for plant and equipment additions and replacements	1,689,539	1,608,406
Under revenue bond ordinance	1,735,213	1,855,396
	\$ 11,763,737	7,078,717

Statutes authorize the Hospital to invest in direct United States Treasury obligations, United States government agency obligations, certificates of deposit of state banks or national banks having their principal office in the State of Louisiana, mutual or trust fund institutions which have underlying investments consisting solely of securities of the United States government or its agencies and any other federally insured investments.

(3) Charity Care

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

The Hospital 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. Charges foregone, based on established rates, were approximately \$315,000 and \$590,000 in 1996 and 1995, respectively.

Uncollectible amounts from patients who do not meet the criteria under the Hospital's charity care policy are included in the provision for doubtful accounts.

(Continued)

BOSSIER MEDICAL CENTER

Notes to Financial Statements

(4) **Net Patient Service Revenue**

Net patient service revenue for the years ended December 31, 1996 and 1995 is as follows:

	1996	1995
Gross patient service revenue, net of charity care charges foregone	$ 87,152,567	81,450,575
Less provision for contractual and other adjustments	36,559,033	28,432,296
Net patient service revenue	$ 50,593,534	53,018,279

(5) **Revenue Bonds Payable**

Revenue bonds payable consist of Hospital Revenue Refunding Bonds, Series 1987 dated September 1, 1987. These bonds consist entirely of fixed rate serial bonds which bear interest rates ranging from 6.25% to 7.85%, and require principal payments ranging from $485,000 to $840,000 through January 1, 2005. Principal and interest are secured by a pledge of, and payable only from, the future revenues of the Hospital.

The revenue bonds maturing on January 1, 1998, and thereafter, are callable at the option of the City on or after July 1, 1997, at a premium of up to 2% of the principal amount retired or redeemed prior to July 1, 2001.

The future principal payments for the next five years for the 1987 Hospital Revenue Refunding Bonds are as follows: 1997 - $485,000; 1998 - $515,000; 1999 - $545,000; 2000 - $580,000; and 2001 - $615,000.

In 1987, the Hospital created an irrevocable trust in an amount sufficient to pay principal and interest on its outstanding 1985 Revenue Bonds. The recording of the in-substance defeasance resulted in the removal of the outstanding bonds and the trust assets from the Hospital's balance sheet in 1987. The 1985 revenue bonds were called on January 1, 1996, at a redemption price of 102% of the principal amount plus accrued interest. The principal amount of the called bonds was $5,225,000.

(6) **Note Payable**

In 1995, the Hospital entered into an unsecured loan agreement with physician employees to finance physician practice acquisitions. The loan bears interest at an annual rate of 9.25% and was repaid during 1996.

(Continued)

BOSSIER MEDICAL CENTER

Notes to Financial Statements

(7) Revenue Bond Funds

Assets whose use is limited (all of which are cash or cash equivalents) under the 1987 Revenue Bond Ordinance, comprising the debt retirement funds held by trustee as of December 31, 1996 and 1995, are as follows:

	1996	1995
Current assets – revenue bond debt retirement funds:		
Interest account	$ 215,010	235,193
Principal account	485,000	585,000
	700,010	820,193
Noncurrent assets – revenue bond debt retirement funds - reserve account	1,035,203	1,035,203
	$ 1,735,213	1,855,396

(8) Transactions With the City of Bossier City

After the Hospital pays operating expenses and makes deposits as described in the 1987 Revenue Bond Ordinance, the City of Bossier City may transfer amounts, on an annual basis, from the Hospital's operating fund to the City's general fund (or any other fund the City designates). Beginning in 1992 through the fiscal year ending December 31, 1995, transfers to the City may not exceed 5% of the Hospital's net property, plant and equipment balance as shown on the most recently issued audited financial statements, except as to any previous unused permitted transfers. Beginning in 1996, transfers to the City may not exceed 5% of the Hospital's net property, plant and equipment balance as shown on the most recently audited financial statements without consideration of any unused permitted transfers.

(9) Leases

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred.

(Continued)

BOSSIER MEDICAL CENTER

Notes to Financial Statements

Future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year as of December 31, 1996 are as follows:

		Minimum Lease Payments
Year ending December 31:		
1997	$	176,660
1998		176,660
1999		137,483
2000		109,500
2001		23,050
Total minimum lease payments	$	623,353

Total rental expense for fiscal 1996 and 1995 for all operating leases was $1,293,842 and $1,862,027, respectively.

(10) Business and Credit Concentrations

The Hospital grants credit to patients, substantially all of whom are local residents, under terms requiring timely repayment. The Hospital does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Blue Cross and commercial insurance policies).

At December 31, 1996 and 1995, the Hospital had receivables from the Federal Government (Medicare), net of contractual allowances, totaling $2,200,003 and $2,503,419, respectively. Receivables from the State Government (Medicaid), net of contractual allowances, totaled $514,795 and $218,331, respectively, at December 31, 1996 and 1995. Receivables from Blue Cross, net of contractual allowances, totaled $883,495 and $1,614,885, respectively, at December 31, 1996 and 1995. Receivables from commercial insurance carriers, net of contractual allowances, totaled $3,333,167 and $3,901,450, respectively, at December 31, 1996 and 1995.

(11) Retirement Plan

Plan Description — The Hospital contributes to the Bossier Medical Center Employees' Pension Plan (the "Plan"), which is a single-employer noncontributory defined benefit public employee retirement system (PERS) covering all employees who meet Plan specified length of service requirements. The Plan provides retirement and disability benefits and requires that the Hospital contribute, on an annual basis, the actuarially determined contribution amount. For the year ended December 31, 1996, the Hospital's total payroll for all employees and the Hospital's total covered payroll amounted to approximately $19,336,000 and $9,610,000, respectively. Covered payroll refers to all compensation paid by the Hospital to active employees covered by the Bossier Medical Center PERS on which contributions to the pension plan are based.

(Continued)

BOSSIER MEDICAL CENTER

Notes to Financial Statements

Employees who retire at age 65 are entitled to a benefit of 1.2% of each year's compensation plus .5% of compensation in excess of $10,000 for service after January 1, 1989. The formula is 1% of compensation plus .5% of compensation in excess of $10,000 for service prior to 1989, but is based on five-year average compensation as of 1989. Compensation is defined as total base salary and wages actually paid, excluding any additions such as bonuses, overtime, and business expenses. Employees may receive a reduced benefit at or after age fifty-five if they have ten years of service.

Basis of Accounting — The Plan assets are held in trust at a bank and represent investments in U.S. government and U.S. government agency obligations and cash equivalents. Such assets are carried at fair value.

Funding Status and Progress — The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan.

The pension benefit obligations were determined as part of actuarial valuations at January 1, 1996 and 1995, respectively. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 7.5% and 8% per year for 1996 and 1995, respectively, compounded annually, (b) projected salary increases of 4% per year and 5% per year for 1996 and 1995, respectively, compounded annually, attributable to inflation, (c) additional projected salary increases of 1% per year, attributable to seniority/merit, (d) no postretirement benefit increases, and (e) postretirement benefit values based on 7.5% interest and 1983 Group Annuity mortality and 7% interest and sex specific UP84 mortality set back 2 years for mortality improvement for 1996 and 1995, respectively. The following is a comparison of the pension benefit obligation and plan net assets as of January 1, 1996 and 1995:

	1996	1995
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits	$ 701,000	579,000
Current employees:		
Employer-financed vested	3,459,000	3,333,000
Employer-financed nonvested	927,000	1,465,000
Total pension benefit obligation	5,087,000	5,377,000
Net assets available for benefits	5,099,000	4,449,000
Plan assets (greater than) less than pension benefit obligation	$ (12,000)	928,000

(Continued)

BOSSIER MEDICAL CENTER

Notes to Financial Statements

Contributions Required and Contributions Made — The funding policy of the Bossier Medical Center PERS provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate needed assets to pay benefits when due. Level percentages of employer payroll contribution rates are determined using the Frozen Entry Age actuarial funding method. As of December 31, 1996, the Plan had a supplemental unfunded liability totaling $84,214 which is being amortized over ten years.

Contributions totaling $528,000 and $639,946 were made in 1996 for the 1996 plan year and in 1995 for the 1995 plan year, respectively. Contributions totaling $132,000 were payable at December 31, 1996, in accordance with contribution requirements determined through an actuarial valuation performed at January 1, 1996. Of these amounts, $591,994 and $619,570 for 1996 and 1995, respectively, represent funding for normal cost.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation.

Trend Information — Historical trend information is presented to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable. Historical three-year trend information for the Bossier Medical Center PERS as of January 1st of each respective year is presented below:

	January 1,		
	1996	1995	1994
Net assets available for benefits as a percentage of the pension benefit obligation	100.2%	82.7%	86.3%
Plan assets (greater than) less than pension benefit obligation as a percentage of the Hospital's annual covered payroll	(.1)%	9.7%	8.0%
Hospital contributions to the pension plan as a percentage of annual covered payroll	5.5%	6.7%	6.5%

(13) Professional Liability, Employee Medical, and Workers' Compensation Insurance

The Hospital is qualified under the State of Louisiana medical malpractice program and has obtained coverage for the first $100,000 of professional liability per occurrence from the Louisiana Hospital Association Trust Fund; additional coverage is provided by the Louisiana Patients' Compensation Fund for the next $400,000 of professional liability up to the present statutory maximum of $500,000 per claim (exclusive of additional amounts for future medical expense provided by law). These funds provide coverage on an occurrence basis.

(Continued)

BOSSIER MEDICAL CENTER

Notes to Financial Statements

The Hospital has certain pending and threatened litigation and claims incurred in the ordinary course of business; however, management believes that the probable resolution of such contingencies will not exceed the Hospital's insurance coverages, and will not materially affect the financial position of the Hospital or the results of its operations.

The Hospital is self-insured for employee health care claims up to an annual individual stop-loss limitation of $75,000. Commercial insurance is in force for those claims which exceed the annual individual stop-loss limitation and do not exceed the individual lifetime reinsurance limitation of $1,000,000.

The Hospital provides coverage for payment of compensation and benefits required of employers pursuant to the Louisiana Workers' Compensation Act through a partially self-insured plan. A commercial carrier covers claims exceeding the $200,000 per incident stop-loss limitation up to an annual aggregate limit of $1,000,000. The Hospital is responsible for all workers' compensation claims incurred below the per incident limitation and in excess of the annual aggregate limitation. The Hospital has pledged a certificate of deposit in the amount of $100,000 with the Office of Workers' Compensation for the State of Louisiana as collateral to secure the prompt payment of workers' compensation claims.

BOSSIER MEDICAL CENTER

Required Supplementary Retirement Plan Information (Unaudited)

December 31, 1996

Required supplementary historical trend information for the Bossier Medical Center Employees' Pension Plan (the "Plan") as provided by Werntz and Associates, Inc. is presented below for all years in which this information is available:

	Analysis of Funding Progress (Values as of Beginning of Year)									
	1996**	1995**	1994**	1993**	1992**	1991**	1990**	1989*	1988	1987
	(dollars in thousands)									
Net assets available for benefits	$5,099	4,449	4,434	3,965	3,470	2,852	2,603	2,492	2,092	1,722
Pension benefit obligation	5,087	5,377	5,138	4,715	4,447	3,894	3,583	3,157	2,222	2,052
Net assets available for benefits as a percentage of the pension benefit obligation	100.2	82.7	86.3	84.1	78.0	73.2	72.6	78.9	94.1	83.9
Plan assets (greater than) less than pension benefit obligation	$ (12)	928	704	750	977	1,042	980	665	130	330
Annual covered payroll	9,610	9,553	8,829	7,525	7,222	6,226	5,386	5,351	4,940	4,855
Plan assets (greater than) less than pension benefit obligation as a percentage of annual covered payroll	(.1)	9.7	8.0	9.9	13.5	16.7	18.2	12.4	2.6	6.8

* In 1989, the plan benefit formula was amended to comply with the Tax Reform Act of 1986 and to update benefits for service prior to January 1, 1989.

** In 1990, the Plan interest assumption was increased to 8% reflecting favorable asset performance. Assets in 1996, 1995, 1994, 1993, 1992, 1991, and 1990 did not include $63,991, $142,372, $173,288, $231,019, $191,697, $275,832, and $351,000, respectively, contributed after the January 1st valuation date.

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

Unaudited – see accompanying independent auditors' report.

KPMG Peat Marwick LLP

1900 Commercial National Tower
333 Texas Street
Shreveport, LA 71101-3692

INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE AT THE FINANCIAL STATEMENT LEVEL

The Board of Directors
Bossier Medical Center:

We have audited the financial statements of Bossier Medical Center (the "Hospital") as of and for the year ended December 31, 1996, and have issued our report thereon dated March 19, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors and management of the Hospital and the State of Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

March 19, 1997

KPMG Peat Marwick LLP

1900 Commercial National Tower
333 Texas Street
Shreveport, LA 71101-3692

RECEIVED
97 JUN -2 PM 2:50

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS AT THE FINANCIAL STATEMENT LEVEL

The Board of Directors
Bossier Medical Center:

We have audited the financial statements of Bossier Medical Center (the "Hospital") as of and for the year ended December 31, 1996, and have issued our report thereon dated March 19, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

BOSSIER MEDICAL CENTER

Notes to Financial Statements

December 31, 1996 and 1995

(1) Organization and Significant Accounting Policies

Organization and Operations — Bossier Medical Center (the "Hospital") is a municipal health care center owned and operated by the City of Bossier City, Louisiana. The Hospital is a component unit of the City of Bossier City as defined by Statement of Governmental Accounting Standards No. 14, *The Financial Reporting Entity*. The Hospital's component unit relationship to the City is principally due to the Hospital's financial accountability to the City as defined in Statement No. 14. The financial statements include only those accounts and transactions which relate to Bossier Medical Center.

Cash and Cash Equivalents — Cash and cash equivalents include certificates of deposit with an original maturity of three months or less and bank short-term funds.

Inventories — Inventories primarily consist of drugs and medical supplies and are valued at the most recent invoice price which approximates the lower of cost (first-in, first-out method) or market.

Investment Income — Investment income from revenue bond funds that are held by trustee is reported as other revenue. Such investment income totaled $70,347 and $80,167 in 1996 and 1995, respectively. Investment income from all other unrestricted or board-designated investments is reported as nonoperating revenues.

Property, Plant and Equipment — Property, plant and equipment are recorded at cost. The Hospital provides for depreciation of its plant and equipment using the straight-line method in amounts sufficient to allocate the cost of these assets over their estimated useful lives. The estimated useful lives of the building and its components range from fifteen to forty years and the range of estimated useful lives of equipment is three to twenty years.

Assets Whose Use is Limited — Assets whose use is limited include funds set aside by the Board of Directors for future property, plant and equipment additions or replacements, over which the Board retains control and may at its discretion subsequently use for other purposes, a certificate of deposit held by trustee under workers' compensation funding arrangements, and assets held under a bond indenture agreement. As of December 31, 1996, these funds consist principally of cash, certificates of deposit, United States government agency mortgage-backed securities, and bank short-term funds. Amounts required to meet current liabilities of the Hospital have been reclassified in the balance sheets at December 31, 1996 and 1995.

(Continued)