KPMG

BOSSIER MEDICAL CENTER

Financial Statements

December 31, 1995 and 1994

(With Independent Auditors' Report Thereon)

KPMG Peat Marwick LLP

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

March 15, 1996

CONFIDENTIAL

The Board of Directors
Bossier Medical Center:

We have audited the financial statements of Bossier Medical Center for the years ended December 31, 1995 and 1994, and have issued our report thereon dated March 15, 1996. In planning and performing our audits of the financial statements of Bossier Medical Center (the "Hospital"), we considered its internal control structure 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 structure. We have not considered the internal control structure since the date of our report.

During our audits, we noted certain matters involving the Hospital's operations that are presented for your consideration. These comments and recommendations have been discussed with the appropriate members of management and are intended to improve the Hospital's operating efficiency and are as follows:

PREPARING BANK RECONCILIATIONS ON A TIMELY BASIS

Observation — All checking accounts are not reconciled on a timely basis. As a result, a time consuming effort was necessary to reconcile these accounts at year-end.

Recommendation — Reconciliations between the bank statements and the general ledger should be performed monthly. Reconciliations should be prepared in a standardized format, and all reconciling items should be fully explained and supported. At a minimum, this should include lists of outstanding checks and bank advices for unrecorded items such as bank fees and interest. The Accounting Manager should review the reconciliations and any adjusting journal entries and document approval by initialing the reconciliation.

Benefit — Timely and accurate bank reconciliations will improve accounting control over the Hospital's cash accounts, which will enhance management's ability to make informed decisions.

* * * * *

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization.

KPMG Peat Marwick LLP

1900 Commercial National Tower
333 Texas Street
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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, 1995, and have issued our report thereon dated March 15, 1996.

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 Bossier Medical Center 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 instance of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of the 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 15, 1996

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, 1995, and have issued our report thereon dated March 15, 1996.

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 Bossier Medical Center for the year ended December 31, 1995, 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.

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 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.

However, we noted certain matters involving the internal control structure and its operations that we reported to the management of the Hospital in a separate letter dated March 15, 1996.

This report is intended for the information of 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 15, 1996

BOSSIER MEDICAL CENTER

Audited Financial Statements

December 31, 1995 and 1994

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KPMG Peat Marwick LLP

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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, 1995 and 1994, 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, 1995 and 1994, 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 15, 1996, on our consideration of Bossier Medical Center's internal control structure and a report, dated March 15, 1996, 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 15, 1996

BOSSIER MEDICAL CENTER

Balance Sheets

December 31, 1995 and 1994

Assets		1995	1994
Current assets:			
Cash	$	3,614,915	458,009
Patient accounts receivable, less allowances for doubtful accounts ($3,225,608 in 1995 and $2,417,000 in 1994)		12,141,626	10,723,846
Other receivables		21,000	45,823
Inventories		739,760	869,464
Assets whose use is limited required for current liabilities		820,193	788,115
Prepaid expenses		443,666	553,894
Total current assets		17,781,160	13,439,151
Assets whose use is limited:			
By Board for plant and equipment additions and replacement – interest-bearing deposits and investment securities		1,608,406	3,131,410
Under revenue bond ordinances – held by trustee		1,855,396	1,823,318
Pursuant to Louisiana Workers' Compensation Act		100,000	100,000
Total assets whose use is limited		3,563,802	5,054,728
Less assets whose use is limited required for current liabilities		(820,193)	(788,115)
		2,743,609	4,266,613
Other assets:			
Cost in excess of acquired net assets		881,721	—
Less accumulated amortization		162,334	—
		719,387	—
Unamortized bond issuance costs		210,860	252,801
Deferred Medicare reimbursement		—	33,958
Other		86,810	100,691
		1,017,057	387,450
Property, plant, and equipment:			
Land and land improvements		1,839,516	1,813,292
Buildings		12,366,749	12,055,767
Fixed equipment		12,562,940	12,633,970
Major movable equipment		21,319,206	19,961,473
Minor equipment		1,042,900	1,023,438
Construction in progress		130,804	128,411
		49,262,115	47,616,351
Less accumulated depreciation		26,589,477	23,791,628
		22,672,638	23,824,723
	$	44,214,464	41,917,937

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BOSSIER MEDICAL CENTER

Balance Sheets, Continued

Liabilities and Fund Balance	1995	1994
Current liabilities:		
Accounts payable and accrued expenses	$ 2,056,040	2,038,461
Construction in progress payable	—	162,703
Pension plan contribution payable	—	142,372
Retroactive settlements due to Medicare intermediary	158,460	409,034
Payroll, payroll taxes, and amounts withheld from employee compensation	582,762	434,018
Accrued vacation	822,348	709,406
Interest payable on revenue bonds	235,189	253,112
Current portion of revenue bonds payable	585,000	535,000
Due to City of Bossier City	130,953	235,714
Note payable	440,331	—
Total current liabilities	5,011,083	4,919,820
Revenue bonds payable	5,710,000	6,295,000
Fund balance	33,493,381	30,703,117
Commitments and contingencies		
	$ 44,214,464	41,917,937

See accompanying notes to financial statements.

BOSSIER MEDICAL CENTER

Statements of Revenues, Expenses, and Changes in Fund Balance

Years ended December 31, 1995 and 1994

	1995	1994
Net patient service revenue	$ 53,018,279	43,160,214
Other revenue	503,222	694,712
Total revenue	53,521,501	43,854,926
Expenses:		
Routine services	5,430,365	5,799,166
Ancillary services	23,234,190	18,773,683
Household and property	2,242,899	2,352,300
Dietary and cafeteria	925,715	1,038,069
Administrative and general	8,718,067	8,676,275
Depreciation and amortization	2,960,183	2,467,150
Provision for doubtful accounts	4,894,689	3,212,539
Total expenses	48,406,108	42,319,182
Operating income	5,115,393	1,535,744
Nonoperating revenues (expenses):		
Other investment income	198,961	450,137
Interest on revenue bonds, net of capitalized interest of $440,760 in 1994	(546,098)	(110,319)
Rental expense	(99,023)	(62,461)
Gain on disposal of assets	488	1,908
(Loss) gain on sale of investments	(1,472,508)	2,931
Other, net	113,051	64,887
Total nonoperating revenues (expenses), net	(1,805,129)	347,083
Income before operating transfer	3,310,264	1,882,827
Operating transfer to the City of Bossier City	(550,000)	(550,000)
Restricted donation	30,000	—
Fund balance at beginning of year	30,703,117	29,370,290
Fund balance at end of year	$ 33,493,381	30,703,117

See accompanying notes to financial statements.

BOSSIER MEDICAL CENTER

Statements of Cash Flows

Years ended December 31, 1995 and 1994

	1995	1994
Cash flows from operating activities:		
Operating income	$ 5,115,393	1,535,744
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,994,141	2,492,518
Provision for bad debts	4,894,689	3,212,539
Changes in operating assets and liabilities:		
Increase in net patient accounts receivable	(6,312,469)	(5,781,411)
Decrease in other receivables	24,823	84,852
Decrease (increase) in inventories and prepaid expenses	252,577	(92,426)
Decrease (increase) in other assets	13,881	(20,575)
(Decrease) increase in accounts payable, accrued expenses, and construction-in-progress payable	(145,124)	722,148
Decrease in pension plan contribution payable	(142,372)	(30,916)
(Decrease) increase in amounts due to Medicare intermediary	(250,574)	222,323
Increase (decrease) in payroll, payroll taxes, and amounts withheld from employee compensation	148,744	(55,149)
Increase in accrued vacation	112,942	106,306
Net cash provided by operating activities	6,706,651	2,395,953
Cash flows from noncapital financing activities – operating transfer to the City of Bossier City	(654,761)	(314,286)
Cash flows from capital and related financing activities:		
Purchase of property, plant, and equipment	(1,574,278)	(2,074,220)
Proceeds received from dispositions of property, plant, and equipment	488	1,908
Acquisition of physician practices	(209,076)	—
Principal payments on debt incurred for capital purposes	(535,000)	(510,000)
Payments of note payable	(316,445)	—
Interest paid on revenue bonds	(522,080)	(522,804)
Restricted donation received	30,000	—
Net cash used by capital and related financing activities	(3,126,391)	(3,105,116)
Cash flows from investing activities:		
Purchase of government agency investments	—	(1,000,560)
Maturities and sales of investments	1,566,672	1,025,132
Interest received on investments	184,643	354,694
Other	14,029	2,426
Net cash provided by investing activities	1,765,344	381,692
Increase (decrease) in cash and cash equivalents	4,690,843	(641,757)
Cash and cash equivalents at beginning of year	2,387,874	3,029,631
Cash and cash equivalents at end of year	$ 7,078,717	2,387,874
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.

BOSSIER MEDICAL CENTER

Notes to Financial Statements

December 31, 1995 and 1994

(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 financial statements include only those accounts and transactions which relate to Bossier Medical Center.

Basis of Presentation — Effective January 1, 1991, the Hospital adopted the provisions of the American Institute of Certified Public Accountants' "Audits of Providers of Health Care Services" in preparing and presenting its financial statements.

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 Securities and Investment Income — The Hospital's debt investment securities at December 31, 1994, are stated at cost, adjusted for amortization of premiums and accretion of discounts due to the Hospital's ability and intention to hold such securities until maturity.

Investment income from revenue bond funds that are held by trustee is reported as other revenue. Such investment income totaled $80,167 and $52,240 in 1995 and 1994, 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. It is the policy of the Hospital to provide 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, a certificate of deposit held by trustee under workers' compensation funding arrangements, and assets held under a bond indenture agreement. As of December 31, 1995, these funds consist principally of cash, certificates of deposit, United States government agency mortgage-backed securities, and bank short-term funds.

(Continued)

Cost in Excess of Acquired Net Assets — The cost in excess over the fair market value of the net assets of the physician practices acquired is amortized on a straight-line basis over the life of the physicians' contracts with the Hospital, not exceeding five years. The accumulated amortization and amortization expense totaled $91,334 at December 31, 1995, and is included in depreciation 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. The amortization totaled $41,941 and $44,853 in 1995 and 1994, respectively, and is included in interest expense in the statements of revenues, expenses, and changes in fund balance.

Accrued Vacation — The Hospital accrues an estimated liability for compensated absences in the period earned.

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

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.

Amounts reimbursed for services rendered to patients covered under the Medicare program and certain other third-party payor programs are less than the established billing rates. Net patient service revenue is reported at the estimated net realizable amounts under these arrangements. Differences between the established billing rates and amounts reimbursed are contractual adjustments.

Certain amounts paid or payable from the Medicare program are subject to examination and retroactive adjustment. Provisions for estimated retroactive adjustments under this program are provided in the period the related services are rendered and adjusted in future periods as final settlements are determined. At December 31, 1995, final settlement had been made by the Medicare program for all years ended through December 31, 1992.

(Continued)

BOSSIER MEDICAL CENTER

Notes to Financial Statements

Since July 1, 1984, the Hospital has been paid for substantially all services rendered to inpatient Medicare program beneficiaries under prospectively determined rates per discharge according to a patient classification system that is based on clinical, diagnostic, and other factors. Costs incurred on services rendered to Medicare inpatients which exceed the prospectively determined payment rates are not recoverable from the Medicare program or its beneficiaries.

The Medicare program pays for outpatient services based on the lower of reasonable costs or customary charges, a fee schedule, or a blended rate.

Effective January 1, 1992, the Medicare program pays for its portion of the Hospital's overall capital costs (which consists primarily of depreciation, interest, and lease costs) on a prospective basis, unless the Hospital qualifies during a ten-year transition period under methodologies which pay a blend of actual costs and the prospectively determined amount. During 1995 and 1994, the Hospital was reimbursed under the "hold harmless" methodology based on a blend of its "old" and "new" capital costs.

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

Reclassifications — Certain amounts in the 1994 financial statements have been reclassified to conform to the 1995 presentation.

Use of Estimates — Management of the Hospital has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(2) Cash and Investments

As of December 31, 1995, the carrying amount of the Hospital's deposits was $4,223,321 and the bank balance was $5,016,177. This difference represents outstanding checks at December 31, 1995. 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 $1,855,396 at December 31, 1995, and are shown as cash and cash equivalents within the statement 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.

(Continued)

BOSSIER MEDICAL CENTER

Notes to Financial Statements

Cash and cash equivalents included in the statements of cash flows as of December 31, 1995 and 1994, follow:

		1995	1994
Cash	$	3,614,915	458,009
Assets whose use is limited:			
By Board for plant and equipment additions and replacement		1,608,406	106,547
Under bond ordinance		1,855,396	1,823,318
	$	7,078,717	2,387,874

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 and they are never expected to result in cash flows, such amounts are not reported as revenue.

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

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, totaled approximately $590,000 and $702,000 during the years ended December 31, 1995 and 1994, respectively.

(4) Net Patient Service Revenue

Net patient service revenue for the years ended December 31, 1995 and 1994, is as follows:

		1995	1994
Gross patient service revenue	$	81,450,575	66,384,006
Less Medicare contractual adjustments and other allowances		28,432,296	23,223,792
Net patient service revenue	$	53,018,279	43,160,214

(Continued)

BOSSIER MEDICAL CENTER

Notes to Financial Statements

(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: 1996 - $585,000; 1997 - $485,000; 1998 - $515,000; 1999 - $545,000; and 2000 - $580,000.

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. These bonds, which have a call date of January 1, 1996, had an unpaid principal balance of $5,720,000 at December 31, 1995. 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.

In 1985, the Hospital in-substance defeased its outstanding Series 1970 Public Hospital Bonds by creating an irrevocable trust in an amount sufficient to pay principal and interest on its then outstanding 1970 bonds. The bonds were paid in full during 1995.

(6) Note Payable

In 1995, the Hospital entered into an unsecured loan agreement with physician employees to finance physician practice acquisitions. At December 31, 1995, the outstanding balance of the note is $440,331. The loan bears interest at an annual rate of 9.25% and is to be repaid by November 7, 1996. Monthly payments of interest and principal are $50,000.

(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, 1995 and 1994, are as follows:

	1995	1994
Current assets – revenue bond debt retirement funds:		
Interest account	$ 235,193	253,115
Principal account	585,000	535,000
	820,193	788,115
Noncurrent assets – revenue bond debt retirement funds - reserve account	1,035,203	1,035,203
	$ 1,855,396	1,823,318

(8) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 1995 and 1994. FASB Statement No. 107, *Disclosures about Fair Values of Financial Instruments*, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties.

	1995		1994	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Note payable	$ 440,331	440,331	—	—
Revenue bonds payable	6,295,000	6,573,968	6,830,000	7,137,391

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, patient accounts receivables, other receivables, prepaid expenses, notes payable, accounts payables and accrued expenses, accrued vacation, payroll, payroll taxes, and amounts withheld from employee compensation, and due to City of Bossier – The carrying amounts approximate fair value because of the short maturity of those instruments.

Assets whose use is limited – The fair values of these instruments approximates the carrying value because the entire balance consists of cash and cash equivalents.

(Continued)

Long-term debt – The fair value of the Hospital's long-term debt is estimated by discounting the future cash flows of each instrument at rates currently offered to the Hospital for similar debt instruments of comparable maturities by the Hospital's bankers.

(9) 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.

During 1995, the Hospital has recorded a transfer of $550,000 to the City of Bossier City. Cash payments to the City totaled $654,762 during 1995 with an additional amount of $130,953 accrued at December 31, 1995.

During 1994, the Hospital had recorded a transfer of $550,000 to the City of Bossier City. Cash payments to the City totaled $314,286 during 1994 with an additional amount of $235,714 accrued at December 31, 1994.

Paid and accrued transfers are shown as operating transfers in the statements of revenues, expenses, and changes in fund balance for the years ended December 31, 1995 and 1994.

(10) Leases

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

Future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year as of December 31, 1995, are as follows:

	Minimum Lease Payments
Year ending December 31:	
1996	$ 415,218
1997	364,643
1998	106,700
1999	91,533
2000	94,150
Total minimum lease payments	$ 1,072,244

(Continued)

BOSSIER MEDICAL CENTER

Notes to Financial Statements

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 for the years ended December 31, 1995 and 1994, were determined as part of actuarial valuations at January 1, 1995 and 1994, respectively. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 5% per year and 4% per year, 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% interest and sex specific UP84 mortality set back 2 years for mortality improvement. At January 1, 1995 and 1994, the unfunded pension benefit obligation was $928,000 and $704,000, respectively, as follows:

	1995	1994
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits	$ 579,000	603,000
Current employees:		
Employer-financed vested	3,333,000	3,453,000
Employer-financed nonvested	1,465,000	1,082,000
Total pension benefit obligation	5,377,000	5,138,000
Net assets available for benefits, at market value *	4,449,000	4,434,000
Unfunded pension benefit obligation	$ 928,000	704,000

*This does not include contributions of $142,372 and $173,288 made in 1995 and 1994, respectively, but applicable to the prior plan year.

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, 1994, the Plan had a supplemental unfunded liability totaling $138,802 which is being amortized over ten years.

(Continued)

Contributions totaling $639,946 and $427,115 were made in 1995 for the 1995 plan year and in 1994 for the 1994 plan year, respectively. Contributions totaling $142,372 were payable at December 31, 1994, in accordance with contribution requirements determined through an actuarial valuation performed at January 1, 1994. Of these amounts, $619,570 and $549,111 for 1995 and 1994, 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,		
	1995	1994	1993
Net assets available for benefits as a percentage of the pension benefit obligation	82.7%	86.3%	84.1%
Unfunded pension benefit obligation as a percentage of the Hospital's annual covered payroll	9.7	8.0	9.9
Hospital contributions to the pension plan as a percentage of annual covered payroll	6.7	6.5	6.6

(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.

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.

(Continued)

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.

(14) Affiliation with Health System

During 1995, the Hospital entered into an affiliation agreement with the Sisters of Charity of the Incarnate Word (d.b.a. Schumpert Health System). The purpose of the affiliation was to enhance the delivery of quality health care to the citizens of Bossier Parish through a cooperative relationship and to provide a forum on methods of cost savings, revenue enhancements, and competitiveness in all phases of healthcare delivery and management. The term of the agreement is ten years.

BOSSIER MEDICAL CENTER

Required Supplementary Retirement Plan Information (Unaudited)

December 31, 1995

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)
(dollars in thousands)

	1995***	1994***	1993***	1992***	1991***	1990***	1989**	1988	1987	1986*
Net assets available for benefits	$4,449	4,434	3,965	3,470	2,852	2,603	2,492	2,092	1,722	1,377
Pension benefit obligation	5,377	5,138	4,715	4,447	3,894	3,583	3,157	2,222	2,052	1,650*
Net assets available as a percentage of the pension benefit obligation	82.74%	86.31	84.1	78.0	73.2	72.6	78.9	94.1	83.9	83.4
Unfunded pension benefit obligation	$ 928	704	750	977	1,042	980	665	130	330	273
Annual covered payroll	9,553	8,829	7,525	7,222	6,226	5,386	5,351	4,940	4,855	4,930
Unfunded pension benefit obligation as a percentage of annual covered payroll	9.7%	8.0	9.9	13.5	16.7	18.2	12.4	2.6	6.8	5.5

* The pension benefit obligation for years prior to 1987 has been estimated by actuaries based on valuations under different assumptions. These changes in assumptions do not have a significant effect on the information presented. Current accrual rates and results have been used to adjust the prior results to the current assumptions.

** 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 1995, 1994, 1993, 1992, 1991, and 1990 did not include $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.