Financial Statements

Bossier Medical Center

Years ended December 31, 1998 and 1997
with Report of Independent Auditors

ERNST & YOUNG LLP

4200 One Shell Square
701 Poydras Street
New Orleans
Louisiana 70139-9869

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Mr. George Brisson, FHFMA
Chief Financial Officer
Bossier Medical Center
2105 Airline Drive
Bossier City, Louisiana 71111

Report on Compliance and Internal Control Over Financial Reporting

Dear George:

Our audit engagement agreement included the issuance of a report on compliance and internal control over financial reporting, as required by *Government Auditing Standards*. As you know, our report on the financial statements of Bossier Medical Center for the year ended December 31, 1998 was a disclaimer of opinion, due to circumstances encountered during the audit which created a scope limitation as described in our report. As a result of the scope limitation and our disclaimer of opinion on the financial statements, we were unable to issue, and we have not issued, a report on compliance and internal control over financial reporting.

If you have any questions concerning the above, please do not hesitate to call me.

Very truly yours,

Sally P. Seyler

Sally P. Seyler
Senior Manager

Copy to Mr. Grover Austin
Office of Legislative Auditor

Ms. Carole Faig, Partner
Ernst & Young LLP

Bossier Medical Center

Financial Statements

Years ended December 31, 1998 and 1997

Contents

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Report of Independent Auditors

The Board of Directors
Bossier Medical Center

We were engaged to audit the accompanying balance sheets of Bossier Medical Center as of December 31, 1998 and 1997, 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 the Hospital's management.

Management of the Hospital was unable to provide us with written representations regarding certain uncertainties and their presentation or disclosure in the financial statements. The Hospital's records do not permit the application of other auditing procedures to these uncertainties.

Because management of the Hospital was unable to provide us with written representations regarding certain uncertainties and their presentation or disclosure in the financial statements, and because we were not able to apply other auditing procedures to satisfy ourselves as to the presentation or disclosure of these uncertainties in the financial statements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements.

The accompanying financial statements have been prepared assuming that Bossier Medical Center will continue as a going concern. As more fully described in Note 12, the Hospital incurred a deficit of revenue over expenses and was not in compliance with certain covenants of its revenue bond ordinance for the year ended December 31, 1998. Management expects the Hospital to incur additional losses in 1999. These conditions raise substantial doubt about the Hospital's ability to continue as a going concern. Management's and the City of Bossier City's plans in regard to these matters are also described in Note 12. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

The year 2000 supplementary information on page 19 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB), and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because disclosure criteria specified by GASB

Technical Bulletin No. 98-1 as amended are not sufficiently specific to permit us to perform procedures that would provide meaningful results. In addition, we do not provide assurance that the Hospital is or will become year 2000 compliant, that the Hospital's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Hospital does business are or will become year 2000 compliant.

Ernst + Young LLP

March 26, 1999

Bossier Medical Center

Balance Sheets

	December 31 1998	1997
Assets		
Current assets:		
Cash and cash equivalents	$ **197,468**	$ 3,229,880
Patient accounts receivable, less allowances for uncollectible accounts of $2,027,000 in 1998 and $3,037,000 in 1997	**8,517,934**	10,582,226
Amounts due from third-party payors	–	516,048
Assets whose use is limited and required for current liabilities	**1,617,283**	713,032
Inventories	**879,172**	993,204
Prepaid expenses and other receivables	**739,265**	616,513
Total current assets	**11,951,122**	16,650,903
Assets whose use is limited, less current portion:		
By board for plant and equipment additions and replacements—interest-bearing deposits and investment securities	**6,717,822**	5,008,636
Under revenue bond ordinance—held by trustee	–	890,405
Pursuant to Louisiana Workers' Compensation Act	**250,000**	100,000
	6,967,822	5,999,041
Property, plant and equipment:		
Land and land improvements	**1,884,628**	1,884,635
Buildings	**14,439,973**	12,938,167
Fixed equipment	**13,072,612**	13,062,466
Major movable equipment	**22,999,922**	21,869,854
Minor equipment	**1,049,856**	1,021,855
Construction in progress	**187,803**	–
	53,634,794	50,776,977
Less accumulated depreciation	**35,634,794**	30,627,843
	18,000,000	20,149,134
Other assets:		
Cost in excess of acquired net assets, less accumulated amortization of $452,974 in 1997	–	312,271
Unamortized bond issuance costs	–	137,665
Other	**18,713**	12,388
	18,713	462,324
	$ 36,937,657	$ 43,261,402

	December 31 1998	1997
Liabilities and fund balance		
Current liabilities:		
Accounts payable and accrued expenses	**$ 1,712,481**	$ 2,103,277
Accrued salaries and payroll-related costs	**768,731**	689,567
Accrued vacation	**968,853**	868,239
Amounts due to third-party payors	**285,805**	–
Interest payable on revenue bonds	**179,620**	198,032
Current maturities of long term-debt, including $4,165,000 of revenue bonds payable in default in 1998	**4,710,000**	515,000
Total current liabilities	**8,625,490**	4,374,115
Revenue bonds payable, less current maturities	**–**	4,710,000
Fund balance	**28,312,167**	34,177,287
	$ 36,937,657	$ 43,261,402

See accompanying notes.

Bossier Medical Center

Statements of Revenues, Expenses and Changes in Fund Balance

	Year ended December 31	
	1998	**1997**
Net patient service revenue	**$ 45,977,869**	$ 47,898,609
Other revenue	**433,345**	421,122
Total revenue	**46,411,214**	48,319,731
Expenses:		
Salaries and wages	**20,902,765**	19,855,370
Employee benefits and payroll taxes	**3,689,960**	3,957,503
Supplies and materials	**7,238,938**	6,878,054
Purchased services	**4,688,493**	3,910,748
Provision for doubtful accounts	**3,186,848**	4,461,587
Asset impairment loss	**2,274,752**	–
Other operating expenses	**6,798,778**	5,917,114
Depreciation and amortization	**2,885,248**	2,650,258
Interest expense	**497,525**	434,477
Total expenses	**52,163,307**	48,065,111
Income (loss) from operations	**(5,752,093)**	254,620
Nonoperating investment income	**436,973**	530,381
Excess (deficit) of revenue over expenses	**(5,315,120)**	785,001
Operating transfer to City of Bossier City	**(550,000)**	(550,000)
Restricted donation	**–**	19,918
Fund balance at beginning of year	**34,177,287**	33,922,368
Fund balance at end of year	**$ 28,312,167**	$ 34,177,287

See accompanying notes.

Bossier Medical Center

Statements of Cash Flows

	Year ended December 31 1998	1997
Operating activities		
Income (loss) from operations	**$ (5,752,093)**	$ 254,620
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:		
Depreciation and amortization	**2,885,248**	2,650,258
Provision for doubtful accounts	**3,186,848**	4,461,587
Interest expense	**497,525**	434,477
Investment income on revenue bond funds	**(69,953)**	(56,177)
Asset impairment loss	**2,274,752**	-
Write-off of cost in excess of acquired net assets	**159,222**	77,651
Changes in operating assets and liabilities:		
Increase in patient accounts receivable	**(1,122,556)**	(5,174,779)
Increase in inventories, prepaid expenses and other receivables	**(8,720)**	(480,285)
(Increase) decrease in amounts due from third-party payors	**516,048**	(516,048)
(Increase) decrease in other assets	**(6,325)**	6,267
Increase (decrease) in accounts payable and accrued expenses	**(390,796)**	67,187
Decrease in pension plan contribution payable	**–**	(132,000)
Increase (decrease) in accrued salaries and payroll-related costs	**79,164**	(45,351)
Increase in accrued vacation	**100,614**	45,891
Increase (decrease) in amounts due to third-party payors	**285,805**	(424,000)
Net cash provided by operating activities	**2,634,783**	1,169,298
Noncapital financing activities		
Operating transfer to the City of Bossier City	**(550,000)**	(550,000)
Net cash used in noncapital financing activities	**(550,000)**	(550,000)
Capital and related financing activities		
Purchases of property, plant and equipment	**(2,857,817)**	(2,226,280)
Principal payments on debt incurred for capital purposes	**(515,000)**	(485,000)
Interest paid on revenue bonds	**(378,272)**	(416,360)
Net cash used in capital and related financing activities	**(3,751,089)**	(3,127,640)
Investing activities		
Interest received on investments and cash equivalents	**506,926**	586,558
(Purchases) sales of investments, net	**947,630**	(1,097,630)
Net cash provided by (used in) investing activities	**1,454,556**	(511,072)
Net decrease in cash and cash equivalents	**(211,750)**	(3,019,414)
Cash and cash equivalents at beginning of year	**8,744,323**	11,763,737
Cash and cash equivalents at end of year	**$ 8,532,573**	$ 8,744,323

See accompanying notes.

1. Accounting Policies

Description of Business

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 (the 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 and the Bossier Medical Center Healthcare Foundation (see Note 11).

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 revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

1. Accounting Policies (continued)

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 income and expenses.

Net Patient Service Revenue and Related Receivables

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.

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 and certain outpatient services related to Medicare beneficiaries are paid based on cost reimbursement methodologies. The Hospital is paid 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.

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined per diem rates. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is paid 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 Medicaid fiscal intermediary.

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 per diem rates.

Net patient service revenue is reported at the estimated net realizable amounts due 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.

1. Accounting Policies (continued)

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).

Charity Care

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

Cash Equivalents

The Hospital considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

During 1998, the Hospital adopted the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and For External Investment Pools*; accordingly, all investments are stated at fair value. Changes in the fair value of investments are included in investment income. The effect of adopting the new statement was immaterial.

Investment Income

Investment income from revenue bond funds that are held by trustee is reported as other revenue. Such investment income totaled $69,953 and $56,177 in 1998 and 1997, respectively. Investment income from all other unrestricted or board-designated investments is reported as nonoperating income.

1. Accounting Policies (continued)

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.

In 1997, the Hospital changed its method of accounting for inventories in several departments from the direct expense method to the inventory method. This change in accounting method resulted in a reduction in supplies and materials expense totaling approximately $338,000 in 1997.

Property, Plant and Equipment

The Hospital records all property, plant and equipment acquisitions at cost, except for assets donated to the Hospital. Donated assets are recorded at appraised value at the date of donation. The Hospital provides for depreciation of its plant and equipment using the straight-line method in amounts sufficient to amortize the cost of its assets over their estimated useful lives. The range of estimated useful lives is 15 to 40 years for the building and its components and 3 to 20 years for equipment.

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, assets held under a bond indenture agreement, and a certificate of deposit held by trustee under workers' compensation funding arrangements. As of December 31, 1998 and 1997, these funds consisted principally of cash, certificates of deposit, money market funds, and United States treasury bills.

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 lives of the physicians' contracts with the Hospital, not exceeding five years. Amortization expense totaled $153,049 and $135,353 in 1998 and 1997, respectively, and is included in depreciation and amortization expense in the statements of revenues, expenses and changes in fund balance.

1. Accounting Policies (continued)

The Hospital wrote off the net unamortized balance of cost in excess of acquired net assets totaling $159,222 and $77,651 in 1998 and 1997, respectively, related to physicians who had terminated or who had notified the Hospital of plans to terminate employment at the Hospital.

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 interest method. Amortization expense totaled $31,831 and $35,093 in 1998 and 1997, respectively, and is included in interest expense in the statements of revenues, expenses and changes in fund balance. As of December 31, 1998, the Hospital wrote off the unamortized bond issuance costs totaling $105,834 as a result of the revenue bonds being in default (see Note 6).

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 10.

2. Third-Party Payor Arrangements

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. During the years ended December 31, 1998 and 1997, approximately 49% and 55%, respectively, of the Hospital's patient service charges were related to services provided to Medicare and Medicaid program beneficiaries.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

2. Third-Party Payor Arrangements (continued)

Revenues derived from the Medicare program are subject to audit and adjustment by the fiscal intermediary and must be accepted by the United States Department of Health and Human Services before settlement amounts become final. Revenues derived from the Medicaid program are subject to audit and adjustment and must be accepted by the Department of Health and Hospitals of the State of Louisiana before settlement amounts become final. Estimated settlements for the years ended through December 31, 1996 for the Medicare and Medicaid programs have been reviewed by program representatives and adjustments have been recorded to correct for the changes required. These adjustments resulted in a decrease in net patient service revenue of approximately $678,000 in 1998 and had an immaterial effect on net patient service revenue in 1997.

3. Cash and Investments

As of December 31, 1998 and 1997, the bank balances of the Hospital's deposits were entirely 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 had an investment in a U. S. Treasury bill with a balance of $1,097,630 at December 31, 1997. This investment was classified as Category 1, which indicates that the security is insured or registered, or is held by the Hospital or its agent in the Hospital's name.

The fair values for the Hospital's investments in U. S. Treasury bills are based on quoted market prices. The fair values for money market accounts and certificates of deposit are based on cost.

Cash and cash equivalents included in the statements of cash flows as of December 31, 1998 and 1997 were as follows:

	1998	1997
Cash and cash equivalents	**$ 197,468**	$ 3,229,880
Assets whose use is limited:		
By board for plant and equipment additions and replacements	**6,717,822**	3,911,006
Under revenue bond ordinance	**1,617,283**	1,603,437
	$ 8,532,573	$ 8,744,323

3. Cash and Investments (continued)

Statutes authorize the Hospital to invest in direct obligations of the U. S. Government or its agencies, certificates of deposit of state banks or national banks having their principal office in the State of Louisiana, and any other federally insured investments, guaranteed investment contracts issued by a financial institution having one of the two highest rating categories published by Standard & Poor's or Moody's, and mutual or trust funds registered under the Securities and Exchange Commission (provided the underlying investments of these funds meet certain restrictions).

4. Revenue Bond Funds

Assets whose use is limited under the 1987 Revenue Bond Ordinance (all of which are cash or cash equivalents) were as follows:

	1998	1997
Current assets—revenue bond debt retirement funds:		
Interest account	$ 179,620	$ 198,032
Principal account	545,000	515,000
Reserve account	892,663	–
	1,617,283	713,032
Noncurrent assets—revenue bond debt retirement funds - reserve account	–	890,405
	$ 1,617,283	$ 1,603,437

The reserve account has been included in current assets as of December 31, 1998 due to the revenue bonds being in default as of that date (see Note 6).

5. Net Patient Service Revenue

Net patient service revenue for the years ended December 31, 1998 and 1997 was as follows:

	1998	1997
Gross patient service revenue, net of charity care charges foregone of $119,298 and $444,745 in 1998 and 1997, respectively	**$ 87,047,124**	$ 85,490,886
Less provision for contractual and other adjustments	**41,069,255**	37,592,277
Net patient service revenue	**$ 45,977,869**	$ 47,898,609

6. 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 bearing interest ranging from 7.15% to 7.85%, and requiring principal payments ranging from $545,000 to $840,000 through January 1, 2005. Principal and interest are secured by a pledge of the Hospital's revenue.

The revenue bonds maturing on January 1, 1998 and thereafter are callable at the option of the City at a premium of up to 1.5% of the principal amount retired or redeemed prior to July 1, 2001.

The future scheduled principal payments for the next five years for the 1987 Hospital Revenue Refunding Bonds are as follows: 1999 - $545,000; 2000 - $580,000; 2001 - $615,000; 2002 - $665,000; and 2003 - $710,000.

The Hospital is required to comply with covenants contained in the 1987 Revenue Bond Ordinance, including, among other requirements, the maintenance of certain funds on deposit with the Trustee, annual certification to the Trustee of adequate insurance coverage, limitations on the issuance of additional indebtedness by the Hospital, and the maintenance of a debt service coverage ratio of 1.20. The Hospital was in compliance with revenue bond covenants for the year ended December 31, 1997. However, the Hospital's debt service coverage ratio was less than 1.20 for the year ended December 31, 1998. Based on the terms of the 1987 Revenue Bond Ordinance, the revenue bonds are in default as a result of this covenant violation, and are classified as current liabilities in the Hospital's balance sheet as of December 31, 1998.

7. 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). 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.

8. Leases

The Hospital leases medical and administrative equipment and physicians' office space under operating leases with terms that vary from month-to-month to five years. Total rental expense for 1998 and 1997 for all operating leases was $978,360 and $1,283,726, respectively.

Under the terms of one of its operating lease agreements, the Hospital has an obligation to purchase the leased property, consisting of physicians' office space, for a purchase price of $306,000, on or before May 31, 1999.

Future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year as of December 31, 1998 are as follows:

Year ending December 31:	
1999	$ 399,510
2000	272,867
2001	89,310
2002	56,713
2003	–
Total minimum lease payments	$ 818,400

9. Retirement Plan

Plan Description

Bossier Medical Center Employees' Pension Plan (the Plan) is a single-employer noncontributory defined benefit public employee retirement system (PERS) administered by the City of Bossier City. The Plan covers all employees who meet plan-specified length of service requirements. The Plan provides retirement, death and disability benefits to plan

9. Retirement Plan (continued)

members and beneficiaries. The Hospital's board of directors has the authority to establish and amend benefit provisions. The City of Bossier City issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to Mr. Charles E. Glover, Director of Finance, City of Bossier City, P. O. Box 5337, Bossier City, Louisiana 71171-5337.

Funding Policy

The contribution requirements of the Hospital are established and may be amended by the Hospital's board of directors. The Hospital is required to contribute at an actuarially determined rate of annual covered payroll; the contribution rate was 7.2% in 1998 and 6.5% in 1997.

Annual Pension Cost and Net Pension Obligation

For 1998 and 1997, the Hospital's annual pension cost of $828,000 and $660,000, respectively, was equal to 100% of the Hospital's actual contributions. The required contributions for 1998 and 1997, respectively, were determined as part of the January 1, 1998 and 1997 actuarial valuations using the aggregate actuarial cost method. This method does not identify or separately amortize unfunded liabilities. Significant actuarial assumptions included: (a) 7.0% (7.5% as of January 1, 1997) investment rate of return, compounded annually, (b) projected salary increases of 3% per year 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 sex-specific 1983 Group Annuity mortality. The Plan's net pension obligation was zero at December 31, 1998 and 1997.

The Hospital's pension liability at transition was determined in accordance with Statement No. 27 of the Governmental Accounting Standards Board and equaled zero before and after transition.

10. Professional Liability 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 through the Louisiana Hospital Association Trust Fund (Trust Fund), effective through October 31, 1997, and through a commercial insurance carrier effective November 1,

10. Professional Liability and Workers' Compensation Insurance (continued)

1997. Additional coverage is provided by the Louisiana Patients' Compensation Fund (LPCF) 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). The Trust Fund and the LPCF provide coverage on an occurrence basis, and the commercial coverage is provided on a claims made 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 provides coverage for payment of compensation and benefits required of employers pursuant to the Louisiana Workers' Compensation Act. The Hospital is partially self-insured for workers' compensation claims incurred prior to November 1, 1998. Commercial carriers cover claims incurred prior to November 1, 1998 exceeding the $200,000 per incident stop-loss limitation up to an annual aggregate limit of $1,000,000 and claims incurred on or after November 1, 1998 up to $1,000,000 per incident. The Hospital is responsible for all workers' compensation claims incurred below the per incident limitation (for claims incurred prior to November 1, 1998) and in excess of the annual aggregate limitation. The Hospital has pledged a certificate of deposit in the amount of $250,000 and $100,000 at December 31, 1998 and 1997, respectively, with the Office of Workers' Compensation for the State of Louisiana as collateral to secure the prompt payment of workers' compensation claims.

The Hospital records a liability for workers' compensation when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors.

11. Foundation

Bossier Medical Center Healthcare Foundation (the Foundation) is a not-for-profit fund-raising corporation that raises funds for the Hospital. The Foundation's board of directors is appointed by the Hospital's board. The financial statements include the accounts of the Foundation, including total assets (consisting of cash) of $362,440 and $278,627 at December 31, 1998 and 1997, respectively, and excess revenue over expenses of $82,313 and $22,706 for the years ended December 31, 1998 and 1997, respectively.

12. Going Concern

The Hospital's financial statements have been prepared assuming that the Hospital will continue as a going concern. For the year ended December 31, 1998, the Hospital incurred a deficit of revenue over expenses of approximately $5,315,000 (including an asset impairment loss of approximately $2,275,000 as discussed below), and was not in compliance with certain covenants of its revenue bond ordinance. The Hospital's revenue bonds are in default as of December 31, 1998 and are classified as current liabilities in the balance sheet as of that date. Management expects the Hospital to incur additional losses in 1999.

In 1998, the City issued a request for proposal to purchase the Hospital, and received an offer and a subsequent amended offer to purchase the Hospital's property, plant and equipment, inventory, and accrued vacation liability for a purchase price of $18,000,000. Due to the existence of several impairment indicators including the significant operating loss in 1998 and expected future losses, the Hospital's property, plant and equipment have been written down to the estimated fair value of $18,000,000 as of December 31, 1998, resulting in an asset impairment loss of approximately $2,275,000 for the year ended December 31, 1998. The sale of the Hospital is subject to approval by public referendum scheduled for May 1, 1999, and to further approval by the office of the Attorney General. Should the sale not be approved, the City may consider several alternative courses of action, including closing the Hospital. The City has not committed to provide funding to the Hospital for its continued operating cash requirements.

These conditions raise substantial doubt about the Hospital's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Bossier Medical Center

Required Year 2000 Supplementary Information (Unaudited)

December 31, 1998

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. The Hospital's computer programs and certain computer-aided medical equipment that have time-sensitive software may *recognize a date using "00" as the year 1900 rather than the year 2000. This could result* in system failures or miscalculations causing disruption of operations or medical equipment malfunctions that could affect patient diagnosis and treatment.

The Hospital has completed the awareness stage of its year 2000 project, and has substantially completed the assessment stage, including an inventory of computer systems and computer-aided medical equipment that may be affected by the year 2000 issue and that are necessary to conducting Hospital operations. The Hospital has determined that it will be required to modify or replace certain portions of its software, hardware, and patient care equipment so that its systems and equipment will function properly with respect to dates in the year 2000 and thereafter. The Hospital is in the remediation stage of its year 2000 project, and is utilizing both internal and external resources to reprogram, or replace, and test the software and patient care equipment for year 2000 readiness. The Hospital anticipates substantially completing the year 2000 project, including the validation and testing stage, by September 30, 1999. The total cost of the year 2000 project, including the assessment, development of a modification plan, purchase of new systems and equipment, systems modifications, and validation and testing, is estimated at approximately $840,000. As of December 31, 1998, the Hospital had not incurred significant costs related to the year 2000 project. There were no commitments outstanding at December 31, 1998 related to the Hospital's year 2000 project.

The costs for the year 2000 project and the date on which the Hospital believes it will complete the year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources. The Hospital's operating results could be materially impacted if actual costs of the year 2000 project are significantly higher than management estimates or if the systems and equipment of the Hospital or those of other companies on which it relies (such as third-party payors) are not compliant in a timely manner.