government plans to reduce Medicare and Medicaid spending, government implementation of national and state healthcare reform or market-initiated delivery system and/or payment methodology changes. However, such changes could have an adverse impact on operating results, cash flows and estimated debt service coverage of the Hospital in future years.

In August 1995, the Hospital sold, with recourse, approximately $1,000,000 of its accounts receivable to a local bank, at an initial cost of 9% in service fees and 10% for reserve requirements. The Hospital received approximately $800,000 for these receivables in September 1995. Management believes a 10% withholding allowance is adequate to provide for potential uncollectible accounts. The agreement also required the Hospital to sell approximately $100,000 of its accounts receivable for each month of fiscal year 1996 under the same terms as discussed above. At August 31, 1996, the Hospital is contingently liable for approximately $950,000 under this agreement.

During 1996, the Hospital, two other hospitals in the region, and a not-for-profit foundation (the Consortium) executed a letter of intent to acquire Lincoln General Hospital (LGH) in Ruston, Louisiana, subject to approval by the voters of Lincoln Parish. The letter of intent requires the Consortium make a cash payment of $10 million and assume the outstanding debt of Lincoln General Hospital. The Hospital has committed to acquire an approximate 13% ownership interest in the Consortium for an investment of approximately $3.5 million. In September 1996, the voters of Lincoln Parish approved the sale of LGH to the Consortium. Management anticipates that the sale will be completed on or about December 31, 1996.

5. CASH FLOW STATEMENT:

Changes in working capital items other than cash and temporary cash investments include the following:

	August 31, 1996	August 31, 1995
(Increase) decrease in patient accounts receivable	$ 487,901	$ 985,274
(Increase) decrease in estimated receivables under medicare and other government payment programs	2,839,621	1,909,294
(Increase) decrease in inventories	(55,117)	185,581
(Increase) decrease in other current assets	(330,436)	207,124
Increase (decrease) in accounts payable	594,143	(606,482)
Increase (decrease) in accrued liabilities	6,076	885,221
	$ 3,542,188	$3,566,012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization and Basis of Presentation

Glenwood Regional Medical Center provides acute care patient services in the general vicinity of Ouachita Parish, Louisiana. The consolidated financial statements include the accounts of Glenwood Regional Medical Center (GRMC), its wholly-owned subsidiaries, Glenwood Health Services, Inc. (GHS), and Sterlington Hospital, Inc. (SHI), and the wholly-owned subsidiary of GHS - Advanced Recovery Systems, Inc. All significant transactions and account balances between these entities have been eliminated in consolidation.

GRMC leases the hospital facility from Hospital Service District No. 1 of Ouachita Parish, Louisiana (Service District) for a nominal amount. The original facility was constructed and furnished with funds obtained from the issuance by Ouachita Parish of Public Improvement Bonds and through the Hill-Burton program. The Public Improvement Bonds were defeased in 1984.

SHI was formed as a wholly-owned, non-profit subsidiary on August 3, 1988. Effective September 1, 1988, SHI entered into an agreement with an unrelated third party to lease a 32-bed acute care facility located in Sterlington, Louisiana. The lease agreement includes a basic term of 15 years, but SHI has an option to cancel the lease at any time after the first anniversary date. The agreement provides for monthly rental payments of $30,000.

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 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.

Inventory Valuation

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market.

Property and Depreciation

Property is recorded at acquisition cost, including interest expense capitalized during construction. No interest was capitalized in 1996 or 1995 by the Hospital. Interest of $149,000 was capitalized on construction by GHS in 1995. Depreciation is provided using the straight-line method and the following estimated useful lives:

Asset	Life
Land Improvements	15 years
Buildings	30 years
Equipment	10 years

GLENWOOD REGIONAL MEDICAL CENTER

CONSOLIDATED BALANCE SHEETS AS OF AUGUST 31, 1996 AND 1995

	1996	1995
ASSETS		
CURRENT ASSETS:		
Cash and temporary cash investments	$ 10,429,941	$ 7,530,063
Patient accounts receivable, net of allowance for doubtful accounts of approximately $5,717,000 in 1996 and $4,140,000 in 1995 (Note 4)	11,854,875	12,342,776
Estimated receivables under Medicare and other government payment programs (Note 1)	-	1,335,606
Inventories	1,215,879	1,160,762
Other current assets	1,755,105	1,424,669
Total current assets	25,255,800	23,793,876
INVESTMENTS:		
Limited as to use-		
Held by trustee under indenture agreements	11,569,002	10,922,916
By administration for capital improvements	8,322,211	7,920,107
Other	18,925,999	14,289,190
	38,817,212	33,132,213
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land and land improvements	4,439,208	4,486,684
Buildings	31,184,049	29,254,694
Equipment	66,252,419	62,713,426
Construction-in-progress	1,493,552	1,440,159
	103,369,228	97,894,963
Less- Accumulated depreciation	(51,692,706)	(44,695,973)
	51,676,522	53,198,990
OTHER ASSETS (Note 1)	2,370,824	505,406
	$ 118,120,358	$ 110,630,485
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 2,722,473	$ 2,023,586
Accounts payable	2,741,097	2,146,954
Accrued liabilities	3,784,147	3,778,071
Estimated liability to Medicare and other government payment programs (Note 1)	1,504,015	-
Total current liabilities	10,751,732	7,948,611
LONG-TERM DEBT (Note 2)	46,369,120	44,576,356
COMMITMENTS AND CONTINGENCIES (Note 4)		
NET ASSETS	60,999,506	58,105,518
	$ 118,120,358	$ 110,630,485

The accompanying notes are an integral part of these statements.

GLENWOOD REGIONAL MEDICAL CENTER

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 1996 AND 1995

	1996	1995
NET CASH FLOWS FROM OPERATING ACTIVITIES AND NON-OPERATING REVENUES:		
Change in net assets from operations	$ 3,626,521	$ 235,014
Noncash expenses and revenues included in change in net assets from operations-		
Depreciation	7,388,779	7,367,059
Net (increase) decrease in working capital items other than cash and temporary cash investments (Note 5)	3,542,188	3,566,012
Net cash flow from operating activities	14,557,488	11,168,085
Non-operating revenues	2,620,605	1,990,842
Net cash flow from operating activities and non-operating revenues	17,178,093	13,158,927
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property and equipment, net	(5,435,028)	(4,146,232)
Increase in investments and other assets	(6,979,188)	(4,562,191)
Net cash (used by) investing activities	(12,414,216)	(8,708,423)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	37,778,909	824,539
Repayment of long-term debt	(39,642,908)	(2,462,153)
Net cash (used by) financing activities	(1,863,999)	(1,637,614)
Net increase (decrease) in cash	2,899,878	2,812,890
BEGINNING CASH AND TEMPORARY CASH INVESTMENTS	7,530,063	4,717,173
ENDING CASH AND TEMPORARY CASH INVESTMENTS	$ 10,429,941	$ 7,530,063
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	$ 3,365,549	$ 2,934,484

The accompanying notes are an integral part of these statements.

GLENWOOD REGIONAL MEDICAL CENTER

CONSOLIDATED STATEMENTS OF REVENUES

AND EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED AUGUST 31, 1996 AND 1995

	1996	1995
NET REVENUE FROM PATIENT SERVICES (Note 1)	$68,949,676	$70,220,015
OTHER OPERATING REVENUE	1,852,394	2,197,448
Total operating revenue	70,802,070	72,417,463
OPERATING EXPENSES:		
Salaries and wages	22,405,647	25,391,872
Employee benefits (Note 3)	5,389,865	6,531,263
Supplies	12,401,275	13,504,978
Professional fees	4,157,434	3,885,949
Purchased services	2,141,594	1,465,783
Other	6,535,731	6,399,043
Depreciation	7,388,779	7,367,059
Interest	3,483,867	3,427,655
Provision for bad debts	3,271,357	4,208,847
Total operating expenses	67,175,549	72,182,449
Change in net assets from operations	3,626,521	235,014
NON-OPERATING REVENUE:		
Investment income (Note 1)	2,515,490	1,906,189
Contributions and other	105,115	84,653
	2,620,605	1,990,842
Change in net assets before extraordinary item	6,247,126	2,225,856
EXTRAORDINARY ITEM - LOSS FROM EARLY EXTINGUISHMENT OF DEBT (Note 2)	(3,353,138)	-
CHANGE IN NET ASSETS	2,893,988	2,225,856
NET ASSETS, beginning of the year	58,105,518	55,879,662
NET ASSETS, end of the year	$60,999,506	$58,105,518

The accompanying notes are an integral part of these statements.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Glenwood Regional Medical Center:

We have audited the accompanying consolidated balance sheets of Glenwood Regional Medical Center (a Louisiana non-profit and non-stock corporation) and subsidiaries (the Hospital) as of August 31, 1996 and 1995, and the related consolidated statements of revenues and expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital'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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Arthur Andersen LLP

New Orleans, Louisiana,
October 18, 1996

ARTHUR ANDERSEN LLP

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GLENWOOD REGIONAL MEDICAL CENTER

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AUGUST 31, 1996 AND 1995
TOGETHER WITH AUDITORS' REPORT

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

Release Date APR 09 1997

Investments

Investments whose use is limited "held by trustee under indenture agreement" represent funds invested through a trustee in certificates of deposit and other qualifying investments as specified in the bond agreements. These investments also include unexpended LPFA proceeds resulting primarily from debt issued through the Louisiana Public Facilities Authority which are to be used in the continued acquisition and construction of Hospital facilities.

Investments whose use is limited by administration for capital improvements represent investments designated for Hospital expansion and replacement which are invested in similar time deposits with financial institutions and which are fully insured or secured by obligations of the U. S. Government.

Other investments consist primarily of debt securities issued by the U. S. Government and its agencies and cash with a market value of approximately $18,546,312 and $14,291,008 at August 31, 1996 and 1995, respectively. Hospital management generally intends to hold these securities until their maturity and therefore, such investments are carried at cost.

Other Assets

Other assets consist primarily of deferred financing costs ($1,466,202) incurred in connection with the issuance of Hospital Revenue Bonds (see Note 2) which are being amortized over the term of the bonds and investments ($904,622) in joint ventures to provide health care services in the Hospital's service area.

Statement of Cash Flows

For purposes of reporting cash flows, the Hospital considers all investments with an original maturity of ninety days or less to be cash equivalents.

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal income taxes on related income pursuant to Section 501(a) of the Code.

Statement of Revenues and Expenses

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are included in Income from Operations; all peripheral transactions are reported as Non-operating Income.

Net Revenue From Patient Service

Net revenue from patient services is reported at the estimated net amounts realizable 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.

- 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 different methodologies in which the Hospital is reimbursed 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 classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through August 31, 1993.

- Medicaid - Inpatient acute care services rendered to program beneficiaries are paid at prospectively determined per diem rates. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology whereby the Hospital is reimbursed 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's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through August 31, 1993.

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, such amounts are not reported as revenue. Charity care provided by the Hospital was approximately $1.6 million in 1996 and $1.1 million in 1995, as measured in terms of charges forgone for services and supplies provided.

Non-Operating Income

Non-operating income includes income earned on board designated investments, and those assets whose use is limited under bond agreements as well as gifts and bequests.

Reclassifications

Certain reclassifications of prior year information have been made to conform with the current year presentation.

2. LONG-TERM DEBT:

Long-term debt consisted of the following at August 31:

	1996	1995
Series 1996 Hospital Revenue Refinancing Bonds bearing interest at varying rates (approximately 4.6% during 1996), due in varying installments from 1997 through 2021, net of unamortized issue discount of $888,448	$ 37,616,552	$ -
Series 1991 Hospital Revenue Bonds bearing interest at varying rates (approximately 7.6% during 1996), due in varying installments from 1996 through 2021, net of unamortized issue discount of $559,763 in 1995	-	33,575,237
Loans payable to the Louisiana Public Facilities Authority with interest at varying rates (approximately 6.1% in 1996) payable in 72 monthly installments which began in January 1994	4,676,055	6,078,872
Loan payable by a subsidiary to a financial institution (guaranteed by the Hospital) with interest at 7.6% due in monthly installments to maturity with a final payment of $6,324,630 due June 1, 1998	6,603,151	6,700,000
Other notes payable	195,835	245,833
	49,091,593	46,599,942
Less- Current maturities	2,722,473	2,023,586
	$46,369,120	$44,576,356

On August 7, 1991 the Hospital issued $35,000,000 Series 1991 Hospital Revenue Bonds ("the 1991 Bonds"). The proceeds from the Series 1991 Bonds were used to (a) redeem all outstanding Hospital Revenue Bonds (Glenwood Regional Medical Center) Series 1984-B (the "Series 1984-B Bonds"), (b) reimburse the Hospital for certain prior capital expenditures, (c) fund the Debt Service Reserve Fund, and (d) pay the costs of issuance of the Series 1991 Bonds. The proceeds were also used to provide funds for the construction and acquisition of improvements to the Hospital. Interest is payable on the 1991 Bonds semi-annually on January 1 and July 1. As of August 31, 1996, $33,660,000 of the 1991 Bonds are outstanding and are to be retired through proceeds of the defeasance trust established in connection with issuance of the 1996 Bonds (see below).

On August 13, 1996, the Hospital issued $38,505,000 Series 1996 Hospital Revenue Refunding Bonds (the 1996 Bonds). The proceeds of the 1996 Bonds were used to provide funds for (a) refunding the Series 1991 Bonds through a defeasance trust to achieve interest cost savings, (b) funding a reserve fund and (c) paying the costs of issuance of the Series 1996 Bonds. This refinancing transaction resulted in an Extraordinary Loss of $3,353,138 representing the writeoff of issuance costs associated with the 1991 Bonds and the difference between the cost to provide securities required to fund the defeasance trust and the carrying value of the 1991 Bonds. Interest is payable on the 1996 Bonds semi-annually on May 15 and November 15. The Bonds are secured by all revenues of the Hospital. Under the provisions of the 1996 Bond Resolution, the Hospital is required to maintain a trusteed Bond Reserve Fund of approximately $2,900,000 to be used to pay principal and interest on the Bonds under certain conditions.

The following table sets forth the scheduled annual principal payments for the aggregate debt outstanding as of August 31, 1996:

1997	$ 2,722,473
1998	8,716,312
1999	2,302,816
2000	1,413,440
2001	935,000
Thereafter through 2022	33,890,000
Total	$49,980,041

At August 31, 1996, the estimated fair value of the Hospital's outstanding debt was approximately $48,270,000.

3. EMPLOYEE BENEFITS:

The Hospital has a contributory money accumulation pension plan covering substantially all its employees under which participants can contribute up to 14% of their annual earnings not to exceed $9,500 per year, with the Hospital matching contributions up to 5% of participants' annual earnings. For fiscal years 1991 through 1996, the Hospital made discretionary contributions to the plan of an additional 1% of employees' annual earnings for all eligible employees. Employees did not have to participate in the matching program to be eligible for this 1% contribution. Employees vest in amounts contributed to the plan by the Hospital based on credited service, as defined. There are no unfunded past service costs under the Hospital's money accumulation pension plan. Pension expense was approximately $687,000 for 1996 and $825,000 for 1995.

The Hospital offered a voluntary retirement incentive program to qualifying employees in fiscal 1995 and recognized approximately $545,000 in employee benefits expense related to this program.

4. COMMITMENTS AND CONTINGENCIES:

The Hospital carries professional liability insurance coverage as a member of the Louisiana Hospital Association Trust Fund for individual claims up to $500,000 (subject to a deductible of $100,000 per claim) which is the current statutory limit for malpractice claims in the State of Louisiana. Malpractice suits involving claims of varying amounts have been filed against the Hospital by various claimants. These actions are in various stages of processing and may ultimately be tried before juries. Counsel is unable to evaluate the ultimate outcome of the suits commenced. Although it is unable to determine the precise settlement that such potential claims may ultimately involve, Hospital management does not believe that the ultimate settlement of these cases will have a material adverse effect on the Hospital's financial position or results of operations.

Legislation and regulation at all levels of government have affected and are likely to continue to affect the operation of the Hospital. Federal healthcare reform legislation proposals debated in Congress in recent years have included the imposition of price controls and/or healthcare spending budgets or targets, significant reductions in Medicare and Medicaid program reimbursement to hospitals and the promotion of a restructured delivery and payment system focusing on competition among providers based on price and quality, managed care, and steep discounting or capitated payment arrangements with many if not all, of the Hospital's principal payors. It is not possible at this time to determine the impact on the Hospital of