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STATEMENTS
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LINCOLN GENERAL HOSPITAL, INC.

RUSTON, LOUISIANA

FINANCIAL REPORT

DECEMBER 31, 1996

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 ~~10-18-1997~~

LINCOLN GENERAL HOSPITAL, INC.
 FINANCIAL REPORT
 EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996
 TABLE OF CONTENTS

	EXHIBIT	PAGE
<u>FINANCIAL SECTION</u>		
Independent Auditor's Report		1
<u>FINANCIAL STATEMENTS</u>		2
Combined Balance Sheet - All Fund Types	A	3-4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Expendable Trust Fund	B	5
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings - All Proprietary Fund Types	C	6
Combined Statement of Cash Flows - All Proprietary Fund Types	D	7-8
Notes to Financial Statements		9-31
<u>COMBINING & INDIVIDUAL FUND FINANCIAL STATEMENTS</u>		32
<u>PROPRIETARY FUNDS</u>		33
<u>Enterprise Funds</u>		
Combining Balance Sheet	E-1	34-35
Combining Statement of Revenues, Expenses, and Changes in Retained Earnings	E-2	36
Combining Statement of Cash Flows	E-3	37-38

LINCOLN GENERAL HOSPITAL, INC.
 FINANCIAL REPORT
 EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996
 TABLE OF CONTENTS

	EXHIBIT	PAGE
<u>PROPRIETARY FUNDS (CONT'D)</u>		
<u>Lincoln General Hospital, Inc.</u>		
Comparative Balance Sheets	F-1	39-40
Statement of Revenues, Expenses, and Changes in Retained Earnings	F-2	41
Statement of Cash Flows	F-3	42-43
<u>NurseSource Home Care, Inc.</u>		
Comparative Balance Sheets	G-1	44
Statement of Revenues, Expenses, and Changes in Retained Earnings	G-2	45
Statement of Cash Flows	G-3	46
<u>Internal Service Funds</u>		
Combining Balance Sheet	H-1	47
Combining Statement of Revenues, Expenses, and Changes in Retained Earnings	H-2	48
Combining Statement of Cash Flows	H-3	49
<u>LGG, Inc.</u>		
Comparative Balance Sheets	I-1	50-51
Statement of Revenues, Expenses, and Changes in Retained Earnings	I-2	52
Statement of Cash Flows	I-3	53

LINCOLN GENERAL HOSPITAL, INC.
FINANCIAL REPORT
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996
TABLE OF CONTENTS

	EXHIBIT	PAGE
<u>PROPRIETARY FUNDS (CONT'D)</u>		
<u>Employee Group Health & Life Insurance Plan #501</u>		
Comparative Balance Sheets	J-1	55
Statement of Revenues, Expenses, and Changes in Retained Earnings	J-2	56
Statement of Cash Flows	J-3	57
<u>FIDUCIARY FUNDS</u>		58
<u>Expendable Trust Funds</u>		
<u>Mary B. Jarrell Scholarship Fund</u>		
Comparative Balance Sheets	K-1	59
<u>OTHER INDEPENDENT AUDITOR'S REPORTS</u>		60
Independent Auditor's Report on Internal Control Structure Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		61-63
Independent Auditor's Report on Compliance with Laws and Regulations Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		64-65

FINANCIAL SECTION

ROBERT E. HOLLADAY III, CPA

116 PINCREST DRIVE

RUSTON, LA 71270

MEMBER

AMERICAN INSTITUTE OF CPA'S
SOCIETY OF LOUISIANA CPA'STo the Board of Directors
Lincoln General Hospital, Inc.
P. O. Drawer 1368
Ruston, LA 71273-1368Independent Auditor's ReportTELEPHONE
318-255-0821

I have audited the accompanying financial statements and combining financial statements of Lincoln General Hospital, Inc. (a nonprofit corporation) as of and for the eight month period ended December 31, 1996, and the individual fund balance sheets of the Hospital as of December 31, 1996, and April 30, 1996, and statements of revenues, expenses and changes in retained earnings and fund balances and cash flows for the eight month period ended December 31, 1996, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements and combining financial statements referred to above present fairly, in all material respects, the financial position of Lincoln General Hospital, Inc., as of December 31, 1996, and the results of its operations and the cash flows of its proprietary fund types for the eight month period then ended in conformity with generally accepted accounting principles. Also, in my opinion, the individual fund financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds of Lincoln General Hospital, Inc., as of December 31, 1996, and April 30, 1996, and the results of operations of such funds and the cash flows of the individual proprietary fund types for the eight month period ended December 31, 1996, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued a report dated February 20, 1997, on my consideration of The Hospital's internal control structure and a report dated February 20, 1997, on its compliance with laws and regulations.



R. E. Holladay III, CPA

Ruston, Louisiana
February 20, 1997

FINANCIAL STATEMENTS

LINCOLN GENERAL HOSPITAL, INC.
COMBINED BALANCE SHEET - ALL FUND TYPES
DECEMBER 31, 1996

	<u>Proprietary Fund Types</u>		<u>Fiduciary</u>	<u>Totals</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Funds Expendable Trust Fund</u>	<u>Memorandum Only</u>
<u>ASSETS</u>				
Cash	\$ 452,671	\$ 204,448	\$ 2,098	\$ 659,217
Investments at Cost	<u>4,448,931</u>	<u>642,871</u>	<u>249,772</u>	<u>5,341,574</u>
Total Cash & Cash Equivalents	4,901,602	847,319	251,870	6,000,791
Assets Whose Use is Limited and are Required for Current Liabilities	644,029			644,029
Patient Accounts Receivable Net of Allowances of \$6,232,800	6,438,689			6,438,689
Estimated Third-Party Payor Settlements	538,771			538,771
Other Accounts Receivable	83,148			83,148
Due From Other Funds	342,664	138,046		480,710
Inventories	1,239,646			1,239,646
Prepaid Expenses	311,997			311,997
Investment in Partnership		370,200		370,200
Investment in NurseSource, Inc.		81,050		81,050
Marketable Securities		8,177		8,177
Assets Whose Use is Limited by Board for Capital Improvements	6,848,239			6,848,239
Property & Equipment-Net	8,828,155			8,828,155
Prepaid Pension Cost	1,373,704			1,373,704
Organization Cost	<u>935,220</u>			<u>935,220</u>
TOTAL ASSETS	<u>\$32,485,864</u>	<u>\$1,444,792</u>	<u>\$251,870</u>	<u>\$34,182,526</u>

(Continued)

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
COMBINED BALANCE SHEET - ALL FUND TYPES
DECEMBER 31, 1996

	<u>Proprietary Fund Types</u>		<u>Fiduciary</u>	<u>Totals</u>
	<u>Enterprise</u>	<u>Internal</u>	<u>Funds</u>	<u>Memorandum</u>
		<u>Service</u>	<u>Expendable</u>	<u>Only</u>
			<u>Trust Fund</u>	
<u>LIABILITIES</u>				
Accounts Payable	\$ 1,190,926	\$ 29,815		\$ 1,220,741
Estimated Health Claims Incurred but not Reported		314,646		314,646
Current Installments of Long-Term Debt & Capital Lease Obligations	443,370			443,370
Accrued Liabilities	1,102,407	17,966		1,120,373
Due to Other Funds	413,710	67,000		480,710
Long-Term Debt & Capital Lease Obligations Excluding Current Installments	<u>1,010,011</u>			<u>1,010,011</u>
TOTAL LIABILITIES	<u>4,160,424</u>	<u>429,427</u>		<u>4,589,851</u>
<u>FUND EQUITY</u>				
Common Stock - No Par Value 1,000 Shares Authorized 300 Shares Issued and Outstanding	56,530			56,530
Retained Earnings Reserved for Capital Improvements	6,848,239			6,848,239
Reserved for Health Claims		503,957		503,957
Unreserved	21,420,671	503,231		21,923,902
Net Unrealized Gain on Marketable Securities		8,177		8,177
Fund Balance Reserved for Scholarships			251,870	251,870
TOTAL FUND EQUITY	<u>28,325,440</u>	<u>1,015,365</u>	<u>251,870</u>	<u>29,592,675</u>
TOTAL LIABILITIES & FUND EQUITY	<u>\$32,485,864</u>	<u>\$1,444,792</u>	<u>\$ 251,870</u>	<u>\$34,182,526</u>

(Concluded)

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
EXPENDABLE TRUST FUND
MARY B. JARRELL SCHOLARSHIP FUND
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

Revenues

Income from Investments \$ 8,242

Expenditures

Scholarships Paid \$ 6,700

Other Expense 8

Total Expenditures 6,708

EXCESS OF REVENUES OVER EXPENDITURES 1,534

FUND BALANCE, BEGINNING 250,336

FUND BALANCE, ENDING \$ 251,870

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
COMBINED STATEMENT OF REVENUES, EXPENSES, & CHANGES
IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

	<u>Proprietary Fund Types</u>		<u>Totals</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Memorandum Only</u>
<u>OPERATING REVENUES</u>			
Net Patient Service Revenues	\$25,000,376		\$25,000,376
Other Operating Revenues	307,599		307,599
Income from Partnership		\$ 260,132	260,132
Health Plan Revenues		<u>1,026,878</u>	<u>1,026,878</u>
TOTAL OPERATING REVENUES	25,307,975	1,287,010	26,594,985
OPERATING EXPENSES	<u>23,565,373</u>	<u>997,700</u>	<u>24,563,073</u>
OPERATING INCOME	1,742,602	289,310	2,031,912
NON-OPERATING REVENUES	<u>368,280</u>	<u>20,126</u>	<u>388,406</u>
INCOME BEFORE INCOME TAX	2,110,882	309,436	2,420,318
INCOME TAX		<u>78,228</u>	<u>78,228</u>
NET INCOME	<u>2,110,882</u>	<u>231,208</u>	<u>2,342,090</u>
INCREASE IN RETAINED EARNINGS			
Reserved/Capital Improvements	607,207		607,207
Reserved/Health Claims		82,633	82,633
Unreserved	1,503,675	148,575	1,652,250
RETAINED EARNINGS - BEGINNING			
Reserved	6,241,032	421,324	6,662,356
Unreserved	<u>19,916,996</u>	<u>354,656</u>	<u>20,271,652</u>
RETAINED EARNINGS - ENDING			
Reserved	6,848,239	503,957	7,352,196
Unreserved	<u>21,420,671</u>	<u>503,231</u>	<u>21,923,902</u>
TOTAL RETAINED EARNINGS	<u>\$28,268,910</u>	<u>\$1,007,188</u>	<u>\$28,276,098</u>

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
COMBINED STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUND TYPES
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

	Enterprise Funds	Internal Service Funds	Totals Memorandum Only
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	\$2,110,882	\$231,208	\$2,342,090
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Amortization/Organization Cost	1,935		1,935
Depreciation	1,176,899		1,176,899
Provision for Bad Debts	1,858,936		1,858,936
Partnership Net Income		(260,132)	(260,132)
Changes in Assets and Liabilities:			
<u>(Increase) Decrease/Assets</u>			
Patient Accounts Receivable	(1,355,161)		(1,355,161)
Accounts Receivable Other	(15,478)	1,262	(14,216)
Third-Party Payor Settlements	69,986		69,986
Inventories	42,820		42,820
Due from Enterprise Fund for Plan Contributions		(17,412)	(17,412)
Prepaid Expenses	8,693	28,412	37,105
Deferred Income Taxes		2,490	2,490
Prepaid Pension Costs	(22,444)		(22,444)
Deposits	208		208
<u>Increase (Decrease)/Liabilities</u>			
Accounts Payable	149,710		149,710
Accrued Payroll & Related Liabilities	(405,564)		(405,564)
Other Accrued Liabilities	10,719	17,966	28,685
Due to Employee Group Health & Life Ins Plan #501	17,412		17,412
Deferred Revenue	(2,925)		(2,925)
Health Claims Payable		(512)	(512)
Estimated Health Claims Incurred but not Reported		(56,400)	(56,400)
Total Adjustments	1,535,746	(284,326)	1,251,420
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	3,646,628	(53,118)	3,593,510

(Continued)

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
COMBINED STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUND TYPES
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Totals Memorandum Only</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Distribution from Partnership		\$ 215,000	\$ 215,000
Loan to NurseSource Home Care	(103,181)		(103,181)
Collection on LGG, Inc. Note	<u>35,000</u>		<u>35,000</u>
NET CASH PROVIDED BY (USED) FOR INVESTING ACTIVITIES	<u>(68,181)</u>	<u>215,000</u>	<u>146,819</u>
<u>CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES</u>			
Loan from Lincoln General Hospital, Inc.	103,181		103,181
Acquisition & Construction of Capital Assets	(1,282,068)		(1,282,068)
(Increase) in Assets Whose Use is Limited	(319,152)		(319,152)
Principal Payments on Long-Term Debt	(254,313)		(254,313)
Payments on Capital Lease Obligations	(26,024)		(26,024)
Payments on Notes Payable		(35,000)	(35,000)
Organization Cost	<u>(562,077)</u>		<u>(562,077)</u>
NET CASH (USED) BY CAPITAL & RELATED FINANCING ACTIVITIES	<u>(2,340,453)</u>	<u>(35,000)</u>	<u>(2,375,453)</u>
NET INCREASE IN CASH & CASH EQUIVALENTS	1,237,994	126,882	1,364,876
CASH & CASH EQUIVALENTS - MAY 1, 1996	<u>3,663,608</u>	<u>720,437</u>	<u>4,384,045</u>
CASH & CASH EQUIVALENTS - DECEMBER 31, 1996	<u>\$4,901,602</u>	<u>\$ 847,319</u>	<u>\$5,748,921</u>

Supplemental Disclosures of Cash Flow Information

Cash Paid During the Year For

Income Taxes

Interest

\$ 69,858	\$ 45,000	\$ 45,000
	\$ 4,932	\$ 74,790

(Concluded)

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

LINCOLN GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996

The following Notes to Financial Statements are an integral part of the Hospital's Financial Report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization - Financial Reporting Entity

Lincoln General Hospital, Inc. was incorporated in 1962 as a not-for-profit general short-term hospital.

As required by generally accepted accounting principles, the financial statements of the Hospital include those of Lincoln General Hospital, Inc., LGG, Inc., and NurseSource Home Care, Inc. The financial statements of LGG, Inc. and NurseSource Home Care, Inc. are blended with the Hospital's financial report because of the significance of their operational and financial relationships with the Hospital.

LGG, Inc., an entity legally separate from the Hospital, is organized on a nonstock basis with membership available to nonprofit general acute care licensed hospitals located and operating in Lincoln Parish, Louisiana with Lincoln General Hospital, Inc. as the only member of the corporation. LGG, Inc. is governed by a three to seven member board elected annually by the member corporation, Lincoln General Hospital, Inc.

On January 4th, 1991, LGG, Inc. entered into a partnership, Ruston Outpatient Physical Therapy Services, with Phycor of Ruston, Inc. on a 50/50 basis. On January 7th, 1991, Ruston Outpatient Physical Therapy Services executed an agreement for professional services with Lincoln General Hospital, Inc. to provide physical therapy services to Lincoln General Hospital.

On January 5, 1994, LGG, Inc. acquired NurseSource Home Care, Inc., an entity legally separate from the hospital.

On January 5, 1994, NurseSource Home Care, Inc. executed an agreement for professional services with Lincoln General Hospital, Inc. to provide home care medical services and hospice to patients.

B. Basis of Presentation - Fund Accounting

The accounts of Lincoln General Hospital, Inc. are organized on the basis of funds, each of which is considered a separate accounting entity. The Hospital has created two types of funds. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, retained earnings or fund balance, revenues and expenditures/expenses.

LINCOLN GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

B. Basis of Presentation - Fund Accounting (cont'd)

The individual funds account for the Hospital's resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

Proprietary Fund Types - These funds account for operations that are organized to be self-supporting through user charges. The funds included in this category are the Enterprise Funds and Internal Service Funds.

Enterprise Funds - These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Funds - These funds are established to account for the financing of services provided by one fund to another fund or to employees of other funds of the Hospital on a contributory or cost reimbursement basis.

Fiduciary Fund Types - These funds account for assets held by the Hospital as a trustee for individuals. These funds are as follows.

Expendable Trust Fund - This fund is used to account for funds that are to be used for nursing scholarships as specified by the donor.

Basis of Accounting - The accounts of the Hospital are maintained on the accrual basis in accordance with the system of accounts prescribed by the American Hospital Association.

C. Budgets and Budgetary Accounting

Formal budgetary accounting is employed as a management control for the Enterprise funds of the Hospital. The Hospital is not legally required to adopt a budget and no budgetary information is presented in this financial report.

D. Assets Whose Use Is Limited

Assets whose use is limited include: assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.

LINCOLN GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

E. Estimates

The preparation of these financial statements requires the Hospital to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

F. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

G. Investments and Investment Income

Investment Management Accounts are authorized by the Board of Directors and are invested in Trust for U.S. Treasury Obligations by the Hospital's agents at various financial institutions. The carrying amounts are at cost which approximates fair value.

Marketable securities are classified as available for sale. Securities classified as available for sale are carried in the financial statements at fair value. Realized gains and losses, determined using the first-in, first-out (FIFO) method, are included in earnings; unrealized holding gains and losses are reported as a separate component of fund equity.

Investment income of all funds is reported as non-operating revenue.

H. Due to and Due from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

I. Inventories

Inventories of drugs and other supplies are stated at cost (first-in, first-out) which approximates market.

LINCOLN GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

J. Property and Equipment

Property and equipment are recorded at cost, or if donated, at fair value on the date of receipt. Depreciation of exhaustible fixed assets used by proprietary funds is charged as an expense against operations, and accumulated depreciation is reported on the proprietary fund's balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation.

K. Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

L. Income Taxes

Lincoln General Hospital, Inc. 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. The exempt status was granted by letter from the Internal Revenue Service dated November 18, 1963.

The Hospital is also exempt from Louisiana Income Tax since it is organized as a non-profit corporation under the laws of the State of Louisiana.

Beginning with the year ended April 30, 1994, LGG, Inc. filed consolidated Federal Income Tax returns with its wholly owned subsidiary, NurseSource Home Care, Inc. LGG, Inc. and NurseSource Home Care, Inc. file separate Louisiana Income Tax Returns.

Income taxes on LGG, Inc. and NurseSource Home Care, Inc. are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes (benefits). Deferred taxes (benefits) are recognized for deductible temporary differences and relate primarily to a contribution carryover. Deferred taxes are also recognized for operating losses that are available to offset future taxable income. Valuation allowances are provided to reduce deferred tax assets to the amount that is more likely than not to be realized.

LINCOLN GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

M. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts whose use is limited by board designation.

N. Accounts Receivable

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Bad debts are provided on the allowance method based on historical experience and management's evaluation of patient accounts receivable.

O. Fund Equity

Unreserved Retained Earnings and Fund Balances represent the net assets available for future operations. Reserved Retained Earnings and Fund Balances represent the net assets that have been identified for specific purposes.

P. Memorandum Only Total Columns & Comparative Data

The Combined Financial Statements include total columns that are described as memoranda only. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Interfund transactions have not been eliminated from the total column of each financial statement.

Comparative data for the prior period has been presented in the accompanying financial statements in order to provide an understanding of changes in the Hospital's financial position. Since this report covers a short period of only eight months, comparative income statements are not presented.

Q. Reclassifications

Certain prior period amounts have been reclassified in order to conform with current year presentation.

2. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors.

LINCOLN GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996

2. NET PATIENT SERVICE REVENUE (CONT'D)

A summary of the basis of reimbursement with major third-party payors follows:

Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid on a prospective payment basis known as DRGs or Diagnosis Related Groups. Payment rates vary according to each patient's acuity which is based on clinical, diagnostic and other related factors.

Inpatient skilled nursing services are paid on a cost based system subject to routine cost limits and ancillary limits.

Outpatient services are paid on a cost based system subject to fee schedules and blended rates.

For Medicare cost reimbursable items, the Hospital is paid an estimated or interim amount during the year. After the Hospital submits its annual cost report and the Medicare fiscal intermediary reviews and/or audits it, a final settlement is reached.

Medicaid

Inpatient acute care services rendered to Medicaid program beneficiaries are paid on a per diem basis.

Outpatient services are reimbursed under a cost based methodology subject to cost reductions and/or fee schedules and limits.

For Medicaid cost reimbursable items, the Hospital is paid an estimated or interim amount during the year. After the Hospital submits its annual cost report and the Medicare fiscal intermediary reviews and/or audits it, a final settlement is reached.

Cost Reports

Medicare and Medicaid cost reports for the Hospital have been audited/reviewed by the Medicare fiscal intermediary for all periods through April 30, 1995.

Charity Care

Services provided by the Hospital will be made available to patients asking for and qualifying for uncompensated care. DHEW's poverty income guidelines are used in determining the patient's eligibility and the individual amount of uncompensated care to be given. The amount charged to Charity was \$346,900 for the eight month period ended December 31, 1996. This amount was deducted in arriving at Net Patient Service Revenue.

LINCOLN GENERAL HOSPITAL, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1996

3. INVESTMENT MANAGEMENT ACCOUNTS AND SECURITIES

Investment Management Accounts are summarized as follows:

	December 31 <u>1 9 9 6</u>	April 30 <u>1 9 9 6</u>
<u>Lincoln General Hospital, Inc.</u>		
<u>Current Assets</u>		
Investment Management Accounts	\$ 4,448,931	\$ 3,550,507
<u>Limited for Capital Improvements</u>		
Investment Management Accounts	7,492,268	7,173,116
<u>Employee Group Health & Life</u>		
<u>Insurance Plan #501</u>		
Investment Management Account	602,637	632,385
<u>Mary B. Jarrell Scholarship Fund</u>		
Investment Management Account	<u>249,772</u>	<u>246,530</u>
TOTAL	<u>\$12,793,608</u>	<u>\$11,602,538</u>

The investment management accounts are classified as to credit risk by the category described below:

Category 1 - Insured or registered, or securities held by the Hospital or its agent in the Hospital's name.

<u>Description</u>	<u>Category 1</u>	<u>Carrying Value</u>	<u>Fair Value</u>
<u>Investment Management Accounts</u>			
Securities Money Market Fund	\$ 397,928	\$ 397,928	\$ 397,928
Government Money Market Fund	4,051,003	4,051,003	4,051,003
Financial Square Treasury Fund	1,615,509	1,615,509	1,615,509
Financial Square Treasury Fund	1,742,618	1,742,618	1,742,618
Financial Square Treasury Fund	4,134,141	4,134,141	4,134,141
Government Money Market Fund	602,637	602,637	602,637
Financial Square Treasury Fund	<u>249,772</u>	<u>249,772</u>	<u>249,772</u>
Total	<u>\$12,793,608</u>	<u>\$12,793,608</u>	<u>\$12,793,608</u>

Marketable Equity Securities are summarized as follows:

<u>Employee Group Health & Life Insurance Plan #501</u>	<u>Cost</u>	<u>Net Unrealized Gain</u>	<u>Fair Value</u>
Available for Sale			
Guarantee Life Companies, Inc.			
442 Shares Common Stock	-0-	\$ 8,177	\$ 8,177

LINCOLN GENERAL HOSPITAL, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1996

4. OTHER ACCOUNTS RECEIVABLE

Other accounts receivable at December 31, 1996 and April 30, 1996, are summarized as follows:

	December 31 <u>1 9 9 6</u>	April 30 <u>1 9 9 6</u>
<u>Lincoln General Hospital, Inc.</u>		
Accounts Receivable-Returned Checks	\$ 964	\$ 2,480
Accounts Receivable-Miscellaneous	14,797	64,490
Employee Travel Advances	189	700
LA Hospital Assn Workers' Comp Fund	<u>67,198</u>	<u> </u>
TOTAL	<u>\$ 83,148</u>	<u>\$ 67,670</u>
<u>LGG, Inc.</u>		
Federal & LA Income Tax Claims Receivable	-0-	\$ 1,262

As of December 31, 1996, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due From <u>Other Funds</u>	Due to <u>Other Funds</u>
Lincoln General Hospital, Inc.	\$ 342,664	\$ 115,120
LGG, Inc.		67,000
NurseSource Home Care, Inc.		298,590
Employee Group Health & Life Insurance Plan #501	<u>138,046</u>	<u> </u>
Totals	<u>\$ 480,710</u>	<u>\$ 480,710</u>

5. ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS

Estimated Third-Party Payor Settlements at December 31, 1996, are summarized below.

Lincoln General Hospital, Inc.

<u>Receivables</u>	<u>Medicare</u>	<u>Medicaid</u>	<u>Total</u>
Eight Months Ended 12/31/96	<u>\$349,799</u>	<u>\$ 23,572</u>	<u>\$ 373,371</u>
Inpatient Bad Debts for the Eight Months Ended 12/31/96	44,809		44,809
Year Ended 4-30-96		24,831	24,831
Year Ended 4-30-95		55,371	55,371
Year Ended 4-30-94		<u>37,901</u>	<u>37,901</u>
Totals	<u>\$394,608</u>	<u>\$141,675</u>	<u>\$ 536,283</u>

NurseSource Home Care, Inc.

<u>Receivables</u>	<u>Medicare</u>	<u>Medicaid</u>	<u>Total</u>
Year Ended 4-30-96		<u>\$ 2,488</u>	<u>\$ 2,488</u>

LINCOLN GENERAL HOSPITAL, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1996

6. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited at December 31, 1996 & April 30, 1996, is set forth below.

	December 31 <u>1 9 9 6</u>	April 30 <u>1 9 9 6</u>
By Board for Capital Improvements		
Investment Management Accounts	<u>\$ 7,492,268</u>	<u>\$ 7,173,116</u>

7. PROPERTY & EQUIPMENT

A summary of property and equipment at December 31, 1996 and April 30, 1996 follows:

Lincoln General Hospital, Inc.

	December 31 <u>1 9 9 6</u>	April 30 <u>1 9 9 6</u>
<u>Used in Operations</u>		
Land ¹	\$ 136,944	\$ 136,944
Land Improvements	172,282	172,282
Building Improvements	5,979,511	5,846,353
Equipment	12,792,081	12,092,316
Equipment Under Capital Leases	257,226	257,226
Computer Software	<u>844,674</u>	<u>738,751</u>
Total	20,182,718	19,243,872
Less Accumulated Depreciation	(<u>11,439,762</u>)	(<u>10,339,425</u>)
Net	8,742,956	8,904,447
Construction in Progress	<u>33,650</u>	<u> </u>
Total Used in Operations	<u>8,776,606</u>	<u>8,904,447</u>
<u>Not Used in Operations</u>		
Green Clinic Building & Lot ²	1,382,000	1,382,000
Less Accumulated Depreciation	(<u>1,335,933</u>)	(<u>1,262,226</u>)
Net Not Used in Operations	<u>46,067</u>	<u>119,774</u>
Property & Equipment - Net	<u>\$ 8,822,673</u>	<u>\$ 9,024,221</u>

¹ Includes donated value of \$24,950

² Includes donated value of \$1,382,000

LINCOLN GENERAL HOSPITAL, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1996

7. PROPERTY & EQUIPMENT (CONT'D)

Additions to property and equipment totaled \$974,553 for the eight month period ended December 31, 1996. Depreciation expense for this period was \$1,176,101.

NurseSource Home Care, Inc.

	December 31 <u>1 9 9 6</u>	April 30 <u>1 9 9 6</u>
<u>Used in Operations</u>		
Equipment	\$ 8,825	\$ 7,726
Less Accumulated Depreciation	(3,343)	(2,545)
Net Used in Operations:	<u>\$ 5,482</u>	<u>\$ 5,181</u>

Additions to NurseSource property and equipment totaled \$1,099 for the eight month period ended December 31, 1996. Depreciation expense for this period was \$798.

8. LONG-TERM DEBT & CAPITAL LEASES

A summary of long-term debt and capital leases at December 31, 1996 and at April 30, 1996 follows:

	December 31 <u>1 9 9 6</u>	April 30 <u>1 9 9 6</u>
<u>Long-Term Debt</u>		
General Electric Capital Corporation Revenue Note/Lincoln General Hospital Series 1996, issued January 6, 1995, by the Louisiana Public Facilities Authority in the amount of \$2,021,260. The note is due \$39,030 monthly including interest at 5.95%, final payment due January 6, 2000, secured by X-ray equipment with a net book value of \$1,058,503 & \$1,154,006 at December 31, 1996 & April 30, 1996, respectively and Escrow Funds in the amount of \$125,711 at April 30, 1996.	\$ 1,316,402	\$ 1,570,715
Less Current Installments of Long-Term Debt	<u>400,844</u>	<u>385,293</u>
Long-Term Debt Excluding Current Installments	<u>\$ 915,558</u>	<u>\$ 1,185,422</u>

LINCOLN GENERAL HOSPITAL, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1996

8. LONG-TERM DEBT & CAPITAL LEASES (CONT'D)

	December 31 <u>1996</u>	April 30 <u>1996</u>
<u>Capital Leases</u>		
Capital Lease Obligations at 6.0% & 13.090% imputed interest rates collateralized by leased equipment with an amortized cost of \$143,411 & \$162,848 at December 31, 1996 and April 30, 1996, respectively.	\$ 136,979	\$ 163,003
Less current installments of Capital Lease Obligations	<u>42,526</u>	<u>39,716</u>
Capital Lease Obligations excluding current installments	<u>\$ 94,453</u>	<u>\$ 123,287</u>

Scheduled principal repayments on long-term debt and payments on capital lease obligations as of December 31, 1996, are as follows:

<u>Period Ended September 30</u>	<u>Long-Term Debt</u>	<u>Obligations Under Capital Leases</u>
1997	\$ 298,391	\$ 44,498
1998	419,091	51,001
1999	444,718	42,660
2000	<u>154,202</u>	<u>30,314</u>
Total	<u>\$1,316,402</u>	\$ 168,473
Less Amount Representing Interest Obligations Under Capital Leases		<u>(31,494)</u>
Total		<u>\$ 136,979</u>

See also Note 12 regarding Hospital Revenue Bonds.

Interest costs included in Lincoln General Hospital, Inc. expenses for the eight month period ended December 31, 1996 was \$68,891.

LINCOLN GENERAL HOSPITAL, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1996

9. PENSION PLAN

The Hospital has a defined benefit pension plan covering eligible employees who elect to make member contributions. The benefits are based on years of service and the employees' compensation during the five consecutive Plan Years of highest earnings during the last ten consecutive Plan Years of employment ending immediately before the earlier of retirement date or termination of employment.

The Hospital makes contributions to the plan which are carried in the financial statements as net periodic pension cost or prepaid pension cost in accordance with SFAS 87. Employees also contribute 3% of total earnings during each month of a Plan Year. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The actuarially computed net periodic pension cost for the eight month period ended December 31, 1996, includes the following components:

<u>Description</u>	<u>Amount</u>
Service Cost Benefits Earned During the Period	\$ 211,579
Interest Cost on Projected Benefit Obligation	543,897
Actual Return on Plan Assets	(586,071)
Net Amortization and Deferral	<u>69,078</u>
Net Periodic Pension costs	<u>\$ 238,483</u>

Assumptions Used in the Accounting for
 Net Periodic Pension Costs Were:

Discount Rates	7.5%
Rates of Increase in Compensation Levels	4.0%
Expected Long-Term Rate of Return on Assets	8.0%

LINCOLN GENERAL HOSPITAL, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1996

9. PENSION PLAN (CONT'D)

The following table sets forth the plan's funded status of amounts recognized in the Hospital's financial statements at December 31, 1996 and April 30, 1996.

	December 31 <u>1 9 9 6</u>	April 30 <u>1 9 9 6</u>
Actuarial Present Value of Benefit Obligations:		
Vested Benefit Obligations	\$ 9,049,726	\$ 9,123,389
Nonvested Benefit Obligation	<u>352,278</u>	<u>196,560</u>
Accumulated Benefit Obligation	9,402,004	9,319,949
Effect of Projected Future Compensation Levels	<u>1,358,284</u>	<u>1,240,620</u>
Estimated Projected Benefit Obligation	10,760,288	10,560,569
Plan Assets at Fair Value	<u>10,795,954</u>	<u>10,299,855</u>
Funded Status--Plan Assets in Excess (Deficiency) of Projected Benefit Obligation	35,666	(260,714)
Unrecognized Net Gain from Past Experience Different from that Assumed	(86,931)	(134,696)
Prior Service Cost Not Yet Recognized in Net Periodic Costs	496,328	569,003
Unrecognized Net (Gain) or Loss Occurring During the Period	<u>928,641</u>	<u>1,177,667</u>
Prepaid Pension Costs	<u>\$ 1,373,704</u>	<u>\$ 1,351,260</u>

10. COMPENSATED ABSENCES

Paid Time Off Plan

Effective November 1, 1989, the Hospital established a Paid Time Off Plan which combines traditional days off such as vacation, holidays, funeral leave and short illness into one program offering the employee more flexibility.

Paid Time Off is a plan that provides more time for the employee's personal use. The Paid Time Off (PTO) Plan covers both full time and part-time employees on a prorata basis. Part-time employees working less than 87 hours per month are not eligible for PTO benefits.

LINCOLN GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996

10. COMPENSATED ABSENCES (CONT'D)

PTO is earned in hours each month. PTO may be accrued to a maximum of twice the annual benefit allowed. It covers virtually any absence including holidays, vacation, personal leave, illness of family members, funeral leave, mental health days and employee's own short term illness, etc.

Compensated absences under the Paid Time Off Plan do vest and accumulate with the appropriate accrual therefor recorded in the accounts. The total liability at December 31, 1996 and April 30, 1996, was \$648,896 and \$737,421, respectively.

Extended Illness Days Plan

Also effective November 1, 1989, the Hospital established an Extended Illness Days (EID) Plan which represents a form of short term disability insurance for the employee when he/she is off work because of his/her own illness. The first five work days (40 work hours) of an illness are not covered by this plan which is only available for full time employees and weekend option employees.

Unlike PTO, EID's are paid only if the employee is ill for more than five consecutive work days. EID's are accrued at the rate of 2 hours per month, or 52 hours per year. These may accrue to a maximum of 480 hours.

Compensated absences under the Extended Illness Days Plan do vest and accumulate, but no accrual therefore is recorded in the accounts.

11. LEASE COMMITMENTS

The Lincoln Parish Police Jury leased the Hospital to Lincoln Public Benefit Corporation (LPBC) who in turn subleased the Hospital to Lincoln General Hospital, Inc. for operation. This lease terminated December 31, 1996, on which date the Policy Jury sold its interest in hospital assets to Lincoln Health Systems, Inc. See note numbers 12 and 22.

LINCOLN GENERAL HOSPITAL, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1996

11. LEASE COMMITMENTS (CONT'D)

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 1996, that have initial or remaining lease terms in excess of one year.

<u>Period Ending September 30</u>	<u>Minimum Lease Payments</u>
1997	\$ 56,555
1998	58,705
1999	38,790
2000	20,790
2001	<u>10,500</u>
Total	<u>\$ 185,340</u>

Total rental expense for all operating leases for the eight month period ended December 31, 1996, was as follows:

	<u>Rental Payments</u>
Lincoln Public Benefit Corporation Lease Payments	\$ 722,600
Other Rental Payments	<u>89,071</u>
Total	<u>\$ 811,671</u>

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

12. HOSPITAL REVENUE BONDS

On July 27, 1993, the Lincoln Parish Police Jury, owner of the Hospital, adopted a resolution to issue \$7,000,000 of fifteen (15) year Hospital Revenue Bonds to finance the acquisition, construction and equipping of improvements, renovations, additions and expansions to the Hospital. The bonds were sold on August 24, 1993, with an interest rate of 4.61% for the first five years. The interest rate will be adjusted for the subsequent second and third five year periods.

LINCOLN GENERAL HOSPITAL, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1996

12. HOSPITAL REVENUE BONDS (CONT'D)

The Bonds are payable as to principal and interest solely from a dedication and pledge of the net income and revenues derived or to be derived from the operation of the Hospital subject to the prior pledge of the income and revenues of the Hospital for the payment of the reasonable and necessary expenses of operating and maintaining the Hospital as defined in the Bond Resolution.

Interest is payable semiannually on January 1 and July 1 of each year, and commenced on January 1, 1994.

Principal shall mature in installments in the following amounts and on the following dates:

<u>Maturity Date</u>	<u>Annual Principal Installments</u>
July 1, 1997 through 1998	\$ 733,333
July 1, 1999 through 2008	333,333

13. RELATED PARTY TRANSACTIONS

At December 31, 1996, the Due to Lincoln General Hospital, Inc. from LGG, Inc., included promissory notes in the amount of \$67,000, payable on demand with interest at 8% per annum. Accrued interest receivable at December 31, 1996 was \$-0-. Interest income from LGG, Inc. for the eight month period ended December 31, 1996 was \$4,932.

The Hospital expensed Physical Therapy fees to Ruston Outpatient Physical Therapy Services in the amount of \$162,836 for the eight month period ended December 31, 1996. Included in accounts payable at December 31, 1996, is \$21,225 of the above expenses. Rental payments received from Ruston Outpatient Physical Therapy Services for use of the Hospital's facilities for outpatient procedures was \$2,940 for the eight month period ended December 31, 1996, and ceased in August, 1996.

LINCOLN GENERAL HOSPITAL, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1996

13. RELATED PARTY TRANSACTIONS (CONT'D)

LGG, Inc. expensed management fees to the Hospital in the amount of \$21,500 for the eight month period ended December 31, 1996.

At December 31, 1996, the Due to Lincoln General Hospital, Inc. from NurseSource Home Care, Inc. included promissory notes in the amount of \$275,664 payable on demand with interest at 8% per annum. Accrued interest receivable included in the above note was \$13,513 for the eight month period ended December 31, 1996.

NurseSource Home Care, Inc. expensed management fees to the Hospital in the amount of \$16,000 for the eight month period ended December 31, 1996.

14. INCOME TAXES

For the eight month period ended December 31, 1996, LGG, Inc. recorded a deferred Federal & Louisiana Income Tax of \$2,490 and a current tax provision of \$75,738. The deferred tax and change in deferred tax asset computed at the statutory rate is due primarily to the deductibility of a contribution carryover.

The following is a reconciliation of book income and taxable income for LGG, Inc., NurseSource Home Care, Inc. and Consolidated Income.

	Louisiana LGG, Inc.	Louisiana NurseSource Home Care, Inc.	Federal Consolidated Income
Net Income (Loss) Before Provision for Federal & LA Income Tax:	\$ 226,803	(\$ 24,900)	\$ 201,903
Nondeductible Expenses	62	25	87
Partnership K-1 Adjustments	27,471		27,471
Contribution Carryover	(9,301)		(9,301)
Federal Income Tax	(64,877)		
LGG Louisiana Income Tax			(10,861)
Taxable Income (Loss)	<u>\$ 180,158</u>	<u>(\$ 24,875)</u>	<u>\$ 209,299</u>

LINCOLN GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996

14. INCOME TAXES (CONT'D)

NurseSource Home Care, Inc. has a Louisiana Net Operating Loss Carryover of \$151,846 which expires in 2009 to 2012. It may be offset against future Louisiana taxable income. Deferred Louisiana income tax benefits of \$6,074 (computed at the statutory rate of 4%) net of a valuation allowance of \$6,074 would be -0- for the eight month period ended December 31, 1996.

15. LITIGATION

The Hospital is involved in litigation arising from claims that have been asserted against the Hospital and are currently in various stages of litigation, the outcome of which is uncertain at the present time.

16. EMPLOYEE GROUP HEALTH AND LIFE INSURANCE PLAN #501

DESCRIPTION OF THE PLAN

The following description of the Lincoln General Hospital (Hospital) Employee Group Health & Life Insurance Plan #501 (Plan) provides only general information. Participants should refer to the Plan Document for a more complete description of the Plan's provisions.

A. General

The Plan provides medical and life insurance benefits covering substantially all employees of the Hospital. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

B. Benefits

The Plan provides medical, life, and accidental death and dismemberment insurance benefits covering employees of the Hospital working not less than 24 hours per week. The Plan also provides medical benefits to employee dependents if the employee elects to make the required contribution. The Plan provides continuation of coverage to terminated employees and dependents who elect continuation of coverage and make the required contributions. The Group Life and Accidental Death and Dismemberment Insurance is fully insured. Life and Accidental Death and Dismemberment Insurance benefits, not to exceed \$100,000 or less than \$15,000, are determined from base earnings. Medical benefits and administrative costs are self-funded by the hospital.

LINCOLN GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996

16. EMPLOYEE GROUP HEALTH AND LIFE INSURANCE PLAN #501 (CONT'D)

C. Contributions

The Plan Document provides that the Plan is entirely voluntary on the part of the Employer, Lincoln General Hospital, Inc., and may be terminated by the employer at any time. The Plan Supervisor, Employee Benefit Services, Inc., makes periodic recommendations to the Hospital Board of Directors, concerning monthly deposit rates for employees covered and rates for those employees electing to make the required contribution for dependent and continuing coverage.

Deposits are calculated monthly based on these rates and payments are made to the Plan Account to cover the Plan's financial obligations.

Employee contributions represent amounts withheld from or paid by employees or former employees for dependent or continuing coverage and are paid to the Plan account.

D. Administrative Expenses

All expenses of administering the Plan shall be paid by the Plan or from the general assets of the Hospital. The Hospital absorbs significant costs of the Plan's operating expenses.

E. Estimates - Benefit Obligations

Plan Liabilities for health claims incurred but not reported as of December 31, 1996 and April 30, 1996, are estimated by the Plan Supervisor, Employee Benefit Services, Inc. Such estimated amounts are reported in the accompanying statements.

F. Plan Amendments

Effective September 1, 1995, the effective date of non-contributory coverage will be the eligibility date unless such coverage is waived.

Effective September 1, 1995, evidence of good health is required if an employee waives the right to non-contributory coverage and then requests coverage at a later date.

Effective January 1, 1996, the plan will pay 70%, after the deductible, for outpatient surgical procedures if performed at Lincoln General Hospital, Inc. or in a physician's office. Outpatient surgical procedures performed at any other facility will be paid at 50%, after the deductible.

LINCOLN GENERAL HOSPITAL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1996

16. EMPLOYEE GROUP HEALTH AND LIFE INSURANCE PLAN #501 (CONT'D)

F. Plan Amendments

Effective January 1, 1997, the definition of beneficiary / participant was changed to include a child born to or adopted by the covered employee during a period of COBRA continuation coverage to be considered a qualified beneficiary upon proper notification to the employer.

Effective January 1, 1997, Article III, Consolidated Omnibus Budget Reconciliation Act (COBRA) continuation of coverage was entirely restated to reflect the above definition.

G. Excess Risk, Life, Accidental Death and Dismemberment Insurance Contracts

Lincoln General Hospital, Inc. has contracted with Guarantee Life Companies, Inc. for aggregate and specific excess risk insurance and life insurance. The Hospital has also contracted with Continental Casualty Company for Accidental Death and Dismemberment Insurance.

H. Income Tax Status

A recent determination letter has not been obtained from the Internal Revenue Service. However, the Plan Administration believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code.

17. FUND EQUITY

Reservations of Retained earnings and fund balances are created to indicate that a portion or all the balance is segregated for a specific future use. Following is a list of all reserves used and a description of each.

Reserved for Capital Improvements - An account used to segregate a portion of retained earnings for capital expenditures in future years.

Reserved for Health Claims - An account used to segregate retained earnings for Health Claims payable for employees and beneficiaries in future years.

Reserved for Scholarships - An account used to segregate fund balance for Nursing Scholarships in future years.

LINCOLN GENERAL HOSPITAL, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1996

18. CONCENTRATIONS OF CREDIT RISK

The Hospital has concentrated its credit risk for cash by maintaining deposits in banks located within the same geographic region. The maximum loss that would have resulted from that risk totalled \$378,094 as of December 31, 1996, for the excess of the deposit liabilities reported by the banks over the amounts that would have been covered by federal insurance.

The Hospital is located in Ruston, Lincoln Parish, Louisiana. The Hospital grants credit without collateral to its patients, most of whom are local area residents who are insured under third-party payor agreements. Revenues from patients and third-party payors were \$24,600,538 for the eight month period ended December 31, 1996.

19. BOARD MEMBER COMPENSATION

No compensation was paid to any member of the boards of directors. Board members who served during the eight month period ended December 31, 1996, are listed below.

<u>Board Member</u>	<u>Member of Board</u>			<u>Compensation</u>
	<u>Lincoln General LGG, Inc.</u>	<u>NurseSource Home Care</u>		
Mr. John Buske	X			None
Mr. Wilbert Ellis	X	X	X	None
Mr. Don Faust	X	X	X	None
Mr. Charles M. Fuller	X			None
Ms. Delores Harris	X			None
Mr. Paul Hogan	X			None
Mr. Dan Hollingsworth	X			None
Mr. David Lewis		X	X	None
Mr. Ted McKinney	X			None
Dr. Randy McWorter	X			None
Dr. Larry Neal	X			None
Mr. Wayne Parker	X			None
Mr. Thomas W. Rogers		X	X	None
Mr. Reagan Sutton		X	X	None
Mr. Joseph R. Thomas, Jr.		x	x	None
<u>Ex-Officio</u>				
Mr. Jack Beard	X			None
Dr. Nancy Smith	X			None

LINCOLN GENERAL HOSPITAL, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 1996

20. SEGMENT INFORMATION - ENTERPRISE FUND

The Hospital maintains two funds which are intended to be self-supporting through user charges for goods and services provided to the general public for Hospital & Home Care. Financial segment information not presented in the financial statements is presented below for the eight month period ended December 31, 1996.

	<u>NurseSource Home Care, Inc.</u>	<u>Lincoln General Hospital, Inc.</u>
Property & Equipment		
Additions	\$ 1,099	\$ 974,553
Dispositions		2,056
Net Working Capital	(\$ 106,756)	\$ 11,456,889

21. OTHER COMMITMENTS

The Hospital had outstanding commitments for the purchase of equipment in the amount of \$140,623 and construction commitments of \$153,925 as of December 31, 1996.

22. REORGANIZATION

On July 9, 1996, Lincoln General Hospital, Inc. and the Lincoln Parish Police Jury executed a Definitive Agreement to create Lincoln Health System, Inc., a consortium made up of the following members.

<u>Hospital</u>	<u>Location</u>
Lincoln General Hospital, Inc.	Ruston
Glenwood Regional Medical Center	West Monroe
St. Francis Medical Center	Monroe
Willis-Knighton Medical Center	Shreveport

The agreement provided that the three out-of-town members will pay the Lincoln Parish Police Jury \$10,000,000 for their entire interest in Lincoln General Hospital property and equipment for which they will receive a 40% interest in Lincoln Health System, Inc. Lincoln General Hospital, Inc. will transfer all of its assets net of liabilities to Lincoln Health System, Inc. for which it will acquire a 60% interest to be held by Lincoln Health Foundation, Inc., an entity created by Lincoln Health System, Inc. The proposed consortium agreement was approved by the voters of Lincoln Parish by ballot on September 21, 1996.

As of December 31, 1996, Lincoln General Hospital, Inc., had incurred legal and accounting fees in connection with the reorganization in the amount of \$929,416, which was capitalized as organization cost. The out-of-town partners have agreed to reimburse Lincoln General Hospital, Inc., for three-fourths of the total organization cost.

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS

PROPRIETARY FUNDSEnterprise Funds

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the Hospital's Board is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Lincoln General Hospital, Inc.

This fund is used to account for the operations of the Hospital.

NurseSource Home Care, Inc.

This fund is used to account for the operations of NurseSource Home Care, Inc.

LINCOLN GENERAL HOSPITAL, INC.
 ENTERPRISE FUND
 COMBINING BALANCE SHEET
 DECEMBER 31, 1996
 WITH COMPARATIVE TOTALS FOR APRIL 30, 1996

LINCOLN
 GENERAL
 HOSPITAL, INC.

ASSETS

CURRENT ASSETS

Cash	\$ 438,037
Investment Securities	<u>4,448,931</u>
Total Cash & Cash Equivalents	4,886,968
Assets Whose Use is Limited and are Required for Current Liabilities	644,029
Patient Accounts Receivable, less Allowance for Doubtful Accounts 12/31/96-\$3,555,100 & 04/30/96-\$3,542,900 Allowance/Medicare & Medicaid Adjustments 12/31/96-\$2,677,700 & 04/30/96-\$2,971,300	6,232,723
Other Accounts Receivable	83,148
Due from LGG, Inc.	67,000
Due from NurseSource Home Care, Inc.	275,664
Estimated Third-Party Payor Settlements	536,283
Inventories @ Cost (FIFO)	1,237,595
Prepaid Expenses	<u>309,527</u>
Total Current Assets	<u>14,272,937</u>

ASSETS WHOSE USE IS LIMITED

By Board for Capital Improvements

Investment Securities	7,492,268
Less Assets Whose Use is Limited and That are Required for Current Liabilities	(<u>644,029</u>)
Noncurrent Assets Whose Use is Limited	<u>6,848,239</u>

PROPERTY & EQUIPMENT, NET OF ACCUMULATED
 DEPRECIATION (12/31/96 - \$12,779,038 &
 04/30/96 - \$11,604,196)

8,822,673

OTHER ASSETS

Prepaid Pension Costs	1,373,704
Organization Cost - Net	929,416
Deposits	<u> </u>
Total Other Assets	<u>2,303,120</u>

TOTAL ASSETS

\$32,246,969

(Continued)

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
 ENTERPRISE FUND
 COMBINING BALANCE SHEET
 DECEMBER 31, 1996
 WITH COMPARATIVE TOTALS FOR APRIL 30, 1996

LINCOLN
 GENERAL
 HOSPITAL, INC.

LIABILITIES & FUND EQUITY

CURRENT LIABILITIES

Accounts Payable	\$ 1,177,266
Current Installments of Long-Term Debt	400,844
Current Installments of Capital Lease Obligations	42,526
Accrued Payroll & Related Liabilities	1,002,154
Other Accrued Liabilities	78,138
Estimated Third-Party Payor Settlements Due to Lincoln General Hospital, Inc.	
Due to Employee Group Health & Life Insurance Plan #501	115,120
Deferred Revenue	
Total Current Liabilities	2,816,048

LONG-TERM DEBT, EXCLUDING CURRENT INSTALLMENTS	915,558
--	---------

CAPITAL LEASE OBLIGATIONS EXCLUDING CURRENT INSTALLMENTS	94,453
--	--------

Total Liabilities	3,826,059
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FUND EQUITY

Common Stock - No Par Value 1,000 Shares Authorized 300 Shares Issued & Outstanding	
Retained Earnings (Deficit) Reserved for Capital Improvements	6,848,239
Unreserved	21,572,671
Total Retained Earnings (Deficit)	28,420,910

TOTAL FUND EQUITY (DEFICIT)	28,420,910
-----------------------------	------------

Commitments & Contingent Liabilities (Notes 2, 8, 9, 10, 11, 12, 15, 18, 21 & 22)	
--	--

TOTAL LIABILITIES & FUND EQUITY	\$32,246,969
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(Concluded)

The accompanying notes are an integral part of this statement.

NURSESOURCE
HOME
CARE, INC.

TOTALS

	December 31 1996	April 30 1996
\$ 13,660	\$ 1,190,926	\$ 1,347,632
	400,844	385,293
	42,526	39,716
22,115	1,024,269	1,429,833
	78,138	67,419
		8,913
275,664	275,664	172,483
22,926	138,046	120,634
		2,925
<u>334,365</u>	<u>3,150,413</u>	<u>3,574,848</u>
	915,558	1,185,422
	<u>94,453</u>	<u>123,287</u>
<u>334,365</u>	<u>4,160,424</u>	<u>4,883,557</u>
<u>56,530</u>	<u>56,530</u>	<u>56,530</u>
(152,000)	6,848,239	6,241,032
(152,000)	<u>21,420,671</u>	<u>19,916,996</u>
(95,470)	<u>28,268,910</u>	<u>26,158,028</u>
	28,325,440	26,214,558
<u>\$ 238,895</u>	<u>\$32,485,864</u>	<u>\$31,098,115</u>

LINCOLN GENERAL HOSPITAL, INC.
ENTERPRISE FUND
COMBINING STATEMENT OF REVENUES,
EXPENSES, & CHANGES IN RETAINED EARNINGS
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

	<u>LINCOLN GENERAL HOSPITAL, INC.</u>	<u>NURSESOURCE HOME CARE, INC.</u>	<u>TOTAL</u>
<u>OPERATING REVENUES</u>			
Net Patient Service Revenues	\$24,600,538	\$ 399,838	\$25,000,376
Other Operating Revenues	<u>307,599</u>	<u> </u>	<u>307,599</u>
Total Operating Revenues	<u>24,908,137</u>	<u>399,838</u>	<u>25,307,975</u>
<u>OPERATING EXPENSES</u>			
Salaries	9,184,915	243,999	9,428,914
Employee Benefits	1,029,168	22,044	1,051,212
Payroll Taxes	659,696	18,713	678,409
Workmen's Comp Insurance	58,035		58,035
Drugs, Food & Supplies	4,428,845	18,194	4,447,039
Outside Services & Expense	968,590	10,100	978,690
Professional Fees	1,060,423		1,060,423
Leases & Rentals	811,671	23,642	835,313
Equip Service Contracts/Repairs	658,556	76	658,632
Utilities	465,809	3,535	469,344
Telephone	49,606	2,420	52,026
Legal, Audit & Consulting	97,287	23,700	120,987
Insurance	329,630	3,458	333,088
Taxes	2,254		2,254
Other Expense	373,580	55,299	428,879
Provision for Bad Debts	1,857,736	1,200	1,858,936
Depreciation	<u>1,102,394</u>	<u>798</u>	<u>1,103,192</u>
Total Operating Expenses	<u>23,138,195</u>	<u>427,178</u>	<u>23,565,373</u>
Income (Loss) from Operations	1,769,942	(27,340)	1,742,602
Nonoperating Revenues (Expenses)	<u>365,840</u>	<u>2,440</u>	<u>368,280</u>
NET INCOME (LOSS)	2,135,782	(24,900)	2,110,882
(Increase) in Retained Earnings Reserved for Capital Improvements	(607,207)	<u> </u>	(607,207)
Net Change in Unreserved Retained Earnings for the Year	1,528,575	(24,900)	1,503,675
RETAINED EARNINGS (DEFICIT) - UNRESERVED, BEGINNING	<u>20,044,096</u>	<u>(127,100)</u>	<u>19,916,996</u>
RETAINED EARNINGS (DEFICIT) - UNRESERVED, ENDING	<u>\$21,572,671</u>	<u>(\$ 152,000)</u>	<u>\$21,420,671</u>

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
ENTERPRISE FUND
COMBINING STATEMENT OF CASH FLOWS
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

	LINCOLN GENERAL HOSPITAL, INC.	NURSESOURCE HOME CARE, INC.	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (Loss)	\$2,135,782	(\$ 24,900)	\$2,119,882
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	1,176,101	798	1,176,899
Amortization of:			
Organization Cost		1,935	1,935
Provision for Bad Debts	1,857,736	1,200	1,858,936
Changes in Assets & Liabilities:			
<u>(Increase) Decrease/Assets</u>			
Patient Accounts Receivable	(1,264,314)	(90,847)	(1,355,161)
Accounts Receivable Other	(15,478)		(15,478)
Third-Party Payor Settlements	76,323	(6,337)	69,986
Inventories	43,962	(1,142)	42,820
Prepaid Expenses	11,163	(2,470)	8,693
Prepaid Pension Costs	(22,444)		(22,444)
Deposits		208	208
<u>Increase (Decrease)/Liabilities</u>			
Accounts Payable	140,969	8,741	149,710
Accrued Payroll & Related Liabilities	(395,581)	(9,983)	(405,564)
Other Accrued Liabilities	10,719		10,719
Due to Employee Group Health & Life Insurance Plan #501	(3,094)	20,506	17,412
Deferred Revenue	(2,925)		(2,925)
Total Adjustments	1,613,137	(77,391)	1,535,746
NET CASH PROVIDED (USED) / BY OPERATING ACTIVITIES	3,748,919	(102,291)	3,646,628

(Continued)

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
ENTERPRISE FUND
COMBINING STATEMENT OF CASH FLOWS
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

	LINCOLN GENERAL HOSPITAL, INC.	NURSESOURCE HOME CARE, INC.	TOTAL
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Collection on LGG, Inc. Note	\$ 35,000		\$ 35,000
Loan to NurseSource Home Care	(103,181)		(103,181)
NET CASH (USED) BY INVESTING ACTIVITIES	(68,181)		(68,181)
<u>CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES</u>			
Loan from Lincoln General Hospital		103,181	103,181
Acquisition & Construction of Capital Assets	(1,280,969)	(1,099)	(1,282,068)
(Increase) in Assets Whose Use is Limited	(319,152)		(319,152)
Organization Cost	(562,077)		(562,077)
Principal Payments on Long-Term Debt	(254,313)		(254,313)
Payments on Capital Lease Obligations	(26,024)		(26,024)
NET CASH PROVIDED (USED) BY CAPITAL & RELATED FINANCING ACTIVITIES	(2,442,535)	102,082	(2,340,453)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	1,238,203	(209)	1,237,994
CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR	3,648,765	14,843	3,663,608
CASH & CASH EQUIVALENTS AT END OF YEAR	\$4,886,968	\$ 14,634	\$4,901,602
<u>Supplemental Disclosures of Cash Flow Information</u>			
Cash Paid During the Year For Interest	\$ 69,858		\$ 69,858

(Concluded)

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
ENTERPRISE FUND
LINCOLN GENERAL HOSPITAL, INC.
COMPARATIVE BALANCE SHEETS
DECEMBER 31, 1996 & APRIL 30, 1996

	December 31 <u>1 9 9 6</u>	April 30 <u>1 9 9 6</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 438,037	\$ 98,258
Investment Securities	<u>4,448,931</u>	<u>3,550,507</u>
Total Cash & Cash Equivalents	4,886,968	3,648,765
Assets Whose Use is Limited and are Required for Current Liabilities	644,029	932,084
Patient Accounts Receivable, less Allowance for Doubtful Accounts 12/31/96 - \$3,549,000 & 04/30/96 - \$3,538,000 Allowance/Medicare & Medicaid Adjustments 12/31/96 - \$2,620,000 & 04/30/96 - \$2,925,000	6,232,723	6,826,145
Other Accounts Receivable	83,148	67,670
Due from LGG, Inc.	67,000	102,000
Due from NurseSource Home Care, Inc.	275,664	172,483
Estimated Third-Party Payor Settlements	536,283	612,606
Inventories @ Cost (FIFO)	1,237,595	1,281,557
Prepaid Expenses	<u>309,527</u>	<u>320,690</u>
Total Current Assets	<u>14,272,937</u>	<u>13,964,000</u>
<u>ASSETS WHOSE USE IS LIMITED</u>		
<u>By Board for Capital Improvements</u>		
Investment Securities	7,492,268	7,173,116
Less Assets Whose Use is Limited and That are Required for Current Liabilities	(644,029)	(932,084)
Noncurrent Assets Whose Use is Limited	<u>6,848,239</u>	<u>6,241,032</u>
PROPERTY & EQUIPMENT, NET OF ACCUMULATED DEPRECIATION (12/31/96 - \$12,775,695 & 04/30/96 - \$11,601,651)	<u>8,822,673</u>	<u>9,024,221</u>
<u>OTHER ASSETS</u>		
Prepaid Pension Costs	1,373,704	1,351,260
Organization Cost	<u>929,416</u>	<u>367,339</u>
Total Other Assets	<u>2,303,120</u>	<u>1,718,599</u>
TOTAL ASSETS	<u>\$32,246,969</u>	<u>\$30,947,852</u>

(Continued)

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
ENTERPRISE FUND
LINCOLN GENERAL HOSPITAL, INC.
COMPARATIVE BALANCE SHEETS
DECEMBER 31, 1996 & APRIL 30, 1996

	December 31 <u>1 9 9 6</u>	April 30 <u>1 9 9 6</u>
<u>LIABILITIES & FUND EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 1,177,266	\$ 1,342,713
Current Installments of Long-Term Debt	400,844	385,293
Current Installments of Capital Lease Obligations	42,526	39,716
Accrued Payroll & Related Liabilities	1,002,154	1,397,735
Other Accrued Liabilities	78,138	67,419
Due to Employee Group Health & Life Insurance Plan #501	115,120	118,214
Deferred Revenue		<u>2,925</u>
Total Current Liabilities	<u>2,816,048</u>	<u>3,354,015</u>
LONG-TERM DEBT, EXCLUDING CURRENT INSTALLMENTS	915,558	1,185,422
CAPITAL LEASE OBLIGATIONS EXCLUDING CURRENT INSTALLMENTS	<u>94,453</u>	<u>123,287</u>
Total Liabilities	<u>3,826,059</u>	<u>4,662,724</u>
<u>FUND EQUITY</u>		
Retained Earnings		
Reserved for Capital Improvements	6,848,239	6,241,032
Unreserved	<u>21,572,671</u>	<u>20,044,096</u>
Total Fund Equity	<u>28,420,910</u>	<u>26,285,128</u>
Commitments & Contingent Liabilities (Notes 2, 8, 9, 10, 11, 12, 15, 18, 21 & 22)		
TOTAL LIABILITIES & FUND EQUITY	<u>\$32,246,969</u>	<u>\$30,947,852</u>

(Concluded)

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
ENTERPRISE FUND
LINCOLN GENERAL HOSPITAL, INC.
STATEMENT OF REVENUES, EXPENSES
& CHANGES IN RETAINED EARNINGS
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

OPERATING REVENUES

Net Patient Service Revenues	\$24,600,538	
Other Operating Revenues	<u>307,599</u>	
Total Operating Revenues		<u>\$24,908,137</u>

OPERATING EXPENSES

Salaries	9,184,915	
Employee Benefits	1,029,168	
Payroll Taxes	659,696	
Workmen's Comp Insurance	58,035	
Drugs, Food & Supplies	4,428,845	
Outside Services & Expense	968,590	
Professional Fees	1,060,423	
Leases & Rentals	811,671	
Equip Service Contracts/Repairs	658,556	
Utilities	465,809	
Telephone	49,606	
Legal, Audit, & Consulting	97,287	
Insurance	329,630	
Taxes	2,254	
Other Expense	373,580	
Provision for Bad Debts	1,857,736	
Depreciation	<u>1,102,394</u>	
Total Operating Expenses		<u>23,138,195</u>
Income from Operations		1,769,942
Nonoperating Revenues (Expenses)		<u>365,840</u>
NET INCOME		2,135,782
(Increase) in Retained Earnings Reserved for Capital Improvements		<u>(607,207)</u>
Net Change in Unreserved Retained Earnings for the Year		1,528,575
RETAINED EARNINGS - UNRESERVED, BEGINNING		<u>20,044,096</u>
RETAINED EARNINGS - UNRESERVED, ENDING		<u>\$21,572,671</u>

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
ENTERPRISE FUND
LINCOLN GENERAL HOSPITAL, INC.
STATEMENT OF CASH FLOWS
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

CASH FLOWS FROM OPERATING ACTIVITIES

Net Income		<u>\$ 2,135,782</u>
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	\$ 1,176,101	
Provision for Bad Debts	1,857,736	
Changes in Assets & Liabilities:		
<u>(Increase) Decrease/Assets</u>		
Patient Accounts Receivable	(1,264,314)	
Accounts Receivable Other	(15,478)	
Third-Party Payor Settlements	76,323	
Inventories	43,962	
Prepaid Expenses	11,163	
Prepaid Pension Costs	(22,444)	
<u>Increase (Decrease)/Liabilities</u>		
Accounts Payable	140,969	
Accrued Payroll & Related Liabilities	(395,581)	
Other Accrued Liabilities	10,719	
Due to Employee Group Health & Life Insurance Plan #501	(3,094)	
Deferred Revenue	(2,925)	
Total Adjustments		<u>1,613,137</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		<u>\$ 3,748,919</u>

(Continued)

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
ENTERPRISE FUND
LINCOLN GENERAL HOSPITAL, INC.
STATEMENT OF CASH FLOWS
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

CASH FLOWS FROM INVESTING ACTIVITIES

Collection on LGG, Inc. Note	\$ 35,000
Loan to NurseSource Home Care, Inc.	(103,181)

NET CASH (USED) BY INVESTING ACTIVITIES (\$ 68,181)

CASH FLOWS FROM CAPITAL &
RELATED FINANCING ACTIVITIES

Acquisition and Construction of Capital Assets	(1,280,969)
(Increase) in Assets Whose Use is Limited	(319,152)
Principal Payments on Long-Term Debt	(254,313)
Payments on Capital Lease Obligations	(26,024)
Organization Cost	(562,077)

NET CASH (USED) BY CAPITAL & RELATED
FINANCING ACTIVITIES (2,442,535)

NET INCREASE IN CASH & CASH EQUIVALENTS 1,238,203

CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR 3,648,765

CASH & CASH EQUIVALENTS AT END OF YEAR \$4,886,968

Supplemental Disclosures of Cash Flow Information

Cash Paid During the Year For Interest	\$ 69,858
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(Concluded)

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
ENTERPRISE FUND
NURSESOURCE HOME CARE, INC.
COMPARATIVE BALANCE SHEETS
DECEMBER 31, 1996 & APRIL 30, 1996

	December 31 <u>1 9 9 6</u>	April 30 <u>1 9 9 6</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 14,634	\$ 14,843
Patient Accounts Receivable, Less Allowance for Medicare, Medicaid and Other Adjustments (12/31/96 - \$63,800; 04/30/96 - \$51,200)	205,966	116,319
Estimated Third-Party Payor Settlements	2,488	5,064
Inventories at Cost (FIFO)	2,051	909
Prepaid Insurance	<u>2,470</u>	<u> </u>
Total Current Assets	227,609	137,135
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION (12/31/96 - \$3,343; 04/30/96 - \$2,545)	5,482	5,181
<u>OTHER ASSETS</u>		
Organization Costs - Net Deposits	5,804	7,739 <u>208</u>
TOTAL ASSETS	<u>\$ 238,895</u>	<u>\$ 150,263</u>
<u>LIABILITIES & FUND EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 13,660	\$ 4,919
Accrued Payroll & Related Liabilities	22,115	32,098
Estimated Third-Party Payor Settlements		8,913
Due to Employee Group Health & Life Insurance Plan #501	22,926	2,420
Due to Lincoln General Hospital, Inc.	<u>275,664</u>	<u>172,483</u>
Total Liabilities	<u>334,365</u>	<u>220,833</u>
<u>FUND EQUITY</u>		
Common Stock - No Par Value 1,000 Shares Authorized 300 Shares Issued and Outstanding	56,530	56,530
Retained Earnings (Deficit) Unreserved	(<u>152,000</u>)	(<u>127,100</u>)
Total Fund Equity (Deficit)	(<u>95,470</u>)	(<u>70,570</u>)
TOTAL LIABILITIES & FUND EQUITY	<u>\$ 238,895</u>	<u>\$ 150,263</u>

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
ENTERPRISE FUND
NURSESOURCE HOME CARE, INC.
STATEMENTS OF REVENUES, EXPENSES, &
CHANGES IN RETAINED EARNINGS
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

OPERATING REVENUES

Net Patient Service Revenues \$ 399,838

OPERATING EXPENSES

Salaries	\$	243,999
Employee Benefits		22,044
Payroll Taxes		18,713
Supplies		18,194
Outside Services & Expense		10,100
Leases & Rentals		23,642
Equip Service Contracts/Repairs		76
Utilities		3,535
Telephone		2,420
Legal, Audit & Consulting		23,700
Insurance		3,458
Other Expense		55,299
Provision for Bad Debts		1,200
Depreciation		<u>798</u>

Total Operating Expenses 427,178

(Loss) from Operations (27,340)

Non-Operating Revenues 2,440

NET (LOSS) (24,900)

RETAINED EARNINGS (DEFICIT) -
UNRESERVED, BEGINNING (127,100)

RETAINED EARNINGS (DEFICIT) -
UNRESERVED, ENDING (152,000)

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
ENTERPRISE FUND
NURSESOURCE HOME CARE, INC.
STATEMENT OF CASH FLOWS
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

CASH FLOWS FROM OPERATING ACTIVITIES

Net (Loss)		(\$ 24,900)
Adjustments to Reconcile Net (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	\$ 798	
Provision for Bad Debts	1,200	
Amortization/Organization Cost	1,935	
Changes in Assets & Liabilities:		
<u>(Increase) Decrease/Assets</u>		
Patient Accounts Receivable	(90,847)	
Third-Party Payor Settlements	(6,337)	
Inventories	(1,142)	
Prepaid Insurance	(2,470)	
Deposits	208	
<u>Increase (Decrease)/Liabilities</u>		
Accounts Payable	8,741	
Accrued Payroll & Related Liabilities	(9,983)	
Due to Employee Group Health & Life Insurance Plan #501	<u>20,506</u>	
Total Adjustments		(<u>77,391</u>)
NET CASH (USED) BY OPERATING ACTIVITIES		(102,291)
<u>CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES</u>		
Loan from Lincoln General Hospital, Inc.	103,181	
Acquisition of Capital Assets	(1,099)	
NET CASH PROVIDED BY CAPITAL & RELATED FINANCING ACTIVITIES		<u>102,082</u>
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS		(209)
CASH & CASH EQUIVALENTS-AT BEGINNING OF YEAR		<u>14,843</u>
CASH & CASH EQUIVALENTS - AT END OF YEAR		<u>\$ 14,634</u>

The accompanying notes are an integral part of this statement.

PROPRIETARY FUNDSInternal Service Funds

Internal Service Funds account for the financing of services provided by one fund to another fund or to employees of other funds of the Hospital on a contributory or cost reimbursement basis.

Employee Group Health and Life Insurance Plan #501

This fund accumulates resources to finance medical benefits to employees of the Hospital.

LGG, Inc.

LGG, Inc. is a separate legal entity that has entered into a partnership with Ruston Outpatient Physical Therapy Services, to provide physical therapy services to Lincoln General Hospital, Inc.

LINCOLN GENERAL HOSPITAL, INC.
INTERNAL SERVICE FUND
COMBINING STATEMENT OF REVENUES,
EXPENSES, & CHANGES IN RETAINED EARNINGS
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

	<u>LGG, Inc.</u>	<u>Employee Group Health & Life Ins Plan #501</u>	<u>TOTAL</u>
<u>OPERATING REVENUES</u>			
Income from Partnership	\$ 260,132		\$ 260,132
Health Plan Revenue		\$1,026,878	1,026,878
TOTAL OPERATING REVENUES	260,132	1,026,878	1,287,010
<u>OPERATING EXPENSES</u>			
	31,698	966,002	997,700
<u>OPERATING INCOME</u>			
	228,434	60,876	289,310
Interest Income	1,619	21,708	23,327
Dividend Income		49	49
Contributions	(3,250)		(3,250)
<u>INCOME BEFORE INCOME TAX</u>			
	226,803	82,633	309,436
<u>FEDERAL & LA INCOME TAX</u>			
	78,228		78,228
<u>NET INCOME</u>			
	148,575	82,633	231,208
<u>INCREASE IN RETAINED EARNINGS</u>			
Reserved		82,633	82,633
Unreserved	148,575		148,575
<u>RETAINED EARNINGS - BEGINNING</u>			
Reserved		421,324	421,324
Unreserved	354,656		354,656
<u>RETAINED EARNINGS - ENDING</u>			
Reserved		503,957	503,957
Unreserved	503,231		503,231
<u>TOTAL RETAINED EARNINGS</u>			
	\$ 503,231	\$ 503,957	\$ 1,007,188

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
INTERNAL SERVICE FUND
COMBINING STATEMENT OF CASH FLOWS
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

	<u>LGG, Inc.</u>	<u>Employee Group Health & Life Ins Plan #501</u>	<u>TOTAL</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Net Income	<u>\$148,575</u>	<u>\$ 82,633</u>	<u>\$231,208</u>
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Partnership Net Income	(260,132)		(260,132)
Changes in Assets & Liabilities:			
<u>(Increase) Decrease/Assets</u>			
Accounts Receivable	1,262		1,262
Due from Other Funds		(17,412)	(17,412)
Prepaid Expenses	28,412		28,412
Deferred Tax	2,490		2,490
<u>Increase (Decrease)/Liabilities</u>			
Accrued Liabilities	17,966		17,966
Health Claims Payable		(512)	(512)
Estimated Health Claims Incurred but not Reported		(56,400)	(56,400)
Total Adjustments	(210,002)	(74,324)	(284,326)
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	 (61,427)	 8,309	 (53,118)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Distribution from Partnership	<u>215,000</u>		<u>215,000</u>
 NET CASH PROVIDED BY INVESTING ACTIVITIES:	 <u>215,000</u>		 <u>215,000</u>

(Continued)

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
INTERNAL SERVICE FUND
COMBINING STATEMENT OF CASH FLOWS
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

	<u>LGG, Inc.</u>	<u>Employee Group Health & Life Ins Plan #501</u>	<u>TOTAL</u>
<u>CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES</u>			
Payment on Note Payable	(\$ 35,000)	-----	(\$ 35,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	(35,000)	-----	(35,000)
NET INCREASE IN CASH & CASH EQUIVALENTS	118,573	\$ 8,309	126,882
CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>18,374</u>	<u>702,063</u>	<u>720,437</u>
CASH & CASH EQUIVALENTS AT END OF YEAR	<u>\$136,947</u>	<u>\$ 710,372</u>	<u>\$847,319</u>

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for Income Taxes	\$ 45,000	\$ 45,000
Cash paid during the year for Interest	\$ 4,932	\$ 4,932

(Concluded)

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
INTERNAL SERVICE FUND
LGG, INC.
COMPARATIVE BALANCE SHEETS
DECEMBER 31, 1996 & APRIL 30, 1996

	December 31 <u>1 9 9 6</u>	April 30 <u>1 9 9 6</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 96,713	\$ 18,374
Certificate of Deposit	<u>40,234</u>	
Total Cash & Cash Equivalents	136,947	18,374
Prepaid Federal Income Tax		24,719
Prepaid Louisiana Income Tax		3,693
Income Tax Claim		1,262
Deferred Income Tax		<u>2,490</u>
Total Current Assets	<u>136,947</u>	<u>50,538</u>
<u>INVESTMENTS</u>		
Investment in ROPTS Partnership	370,200	325,068
Investment in NurseSource Home Care, Inc.	<u>81,050</u>	<u>81,050</u>
Total Investments	<u>451,250</u>	<u>406,118</u>
TOTAL ASSETS	<u>\$ 588,197</u>	<u>\$ 456,656</u>
<u>LIABILITIES & FUND EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accrued Liabilities	\$ 17,966	
Due to Lincoln General Hospital, Inc.	<u>67,000</u>	<u>\$ 102,000</u>
Total Liabilities	84,966	102,000
<u>FUND EQUITY</u>		
Retained Earnings - Unreserved	<u>503,231</u>	<u>354,656</u>
TOTAL LIABILITIES & FUND EQUITY	<u>\$ 588,197</u>	<u>\$ 456,656</u>

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
INTERNAL SERVICE FUND
LGG, INC.
STATEMENT OF REVENUES, EXPENSES,
& CHANGES IN RETAINED EARNINGS
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

REVENUES

Income from Partnership \$ 260,132

OPERATING EXPENSES

Audit	\$ 3,600	
Interest	4,932	
Management Fees	21,500	
Taxes	833	
Travel	<u>833</u>	
Total Operating Expense		<u>31,698</u>

Income from Operations 228,434

NONOPERATING REVENUES (EXPENSES)

Interest Income	1,619	
Contributions	<u>(3,250)</u>	
Total Nonoperating Revenues (Expenses)		<u>(1,631)</u>

INCOME BEFORE INCOME TAX 226,803

INCOME TAXES

Current Year	75,738	
Deferred Tax	<u>2,490</u>	
Total Income Tax		<u>78,228</u>

NET INCOME 148,575

RETAINED EARNINGS - UNRESERVED, BEGINNING 354,656

RETAINED EARNINGS - UNRESERVED, ENDING \$ 503,231

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
INTERNAL SERVICE FUND
LGG, INC.
STATEMENT OF CASH FLOWS
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

CASH FLOWS FROM OPERATING ACTIVITIES

Net Income		\$ 148,575
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Partnership Net Income	(\$ 260,132)	
Changes in Assets & Liabilities:		
<u>(Increase) Decrease/Assets</u>		
Accounts Receivable	1,262	
Prepaid Federal & LA Income Tax	28,412	
Deferred Tax	2,490	
<u>Increase (Decrease)/Liabilities</u>		
Accrued Liabilities	<u>17,966</u>	
Total Adjustments		(<u>210,002</u>)
NET CASH (USED) BY OPERATING ACTIVITIES		(61,427)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Distribution from Partnership	<u>215,000</u>	
NET CASH PROVIDED BY INVESTING ACTIVITIES		215,000
<u>CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES</u>		
Payment on Note Payable	(<u>35,000</u>)	
NET CASH (USED) BY FINANCING ACTIVITIES		(<u>35,000</u>)
NET INCREASE IN CASH & CASH EQUIVALENTS		118,573
CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>18,374</u>
CASH & CASH EQUIVALENTS AT END OF YEAR		<u>\$ 136,947</u>

Supplemental Disclosures of Cash Flow Information

Cash paid for Income Taxes	\$ 45,000
Cash paid for Interest	\$ 4,932

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
INTERNAL SERVICE FUND
EMPLOYEE GROUP HEALTH & LIFE INSURANCE PLAN #501
COMPARATIVE BALANCE SHEETS
DECEMBER 31, 1996 & APRIL 30, 1996

	December 31 <u>1 9 9 6</u>	April 30 <u>1 9 9 6</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 107,735	\$ 69,678
Investment Management Account	<u>602,637</u>	<u>632,385</u>
Total Cash and Cash Equivalents	710,372	702,063
Due from Lincoln General Hospital, Inc.	115,120	118,214
Due from NurseSource Home Care, Inc.	<u>22,926</u>	<u>2,420</u>
TOTAL CURRENT ASSETS	848,418	822,697
<u>INVESTMENTS</u>		
Marketable Securities	<u>8,177</u>	<u> </u>
TOTAL ASSETS	<u>\$ 856,595</u>	<u>\$ 822,697</u>
<u>LIABILITIES & FUND EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Health Claims Payable	\$ 29,815	\$ 30,327
Estimated Health Claims Incurred But Not Reported	<u>314,646</u>	<u>371,046</u>
TOTAL LIABILITIES	<u>344,461</u>	<u>401,373</u>
<u>FUND EQUITY</u>		
Retained Earnings Reserved for Health Claims	503,957	421,324
Net Unrealized Gain on Marketable Securities	<u>8,177</u>	<u> </u>
Total Fund Equity	<u>512,134</u>	<u>421,324</u>
TOTAL LIABILITIES & FUND EQUITY	<u>\$ 856,595</u>	<u>\$ 822,697</u>

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
INTERNAL SERVICE FUND
EMPLOYEE GROUP HEALTH & LIFE INSURANCE PLAN #501
STATEMENT OF REVENUES, EXPENSES
& CHANGES IN RETAINED EARNINGS
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

OPERATING REVENUES

Employer Contributions	\$ 785,022	
Employee Contributions	167,235	
Refunds on Claims Paid	10,222	
Specific Loss Reimbursement	<u>64,399</u>	
Total Operating Revenues		\$ 1,026,878

OPERATING EXPENSES

<u>Payments for</u>		
Health Claims	875,911	
Excess Risk Insurance Premiums	91,080	
Life Insurance Premiums	17,625	
Accidental Insurance Premiums	3,134	
<u>Additions to (Deductions From) Liabilities For</u>		
Health Claims	(56,912)	
<u>Administrative Expenses</u>		
Administrative Fees	27,739	
Precertification Fees	5,284	
Other Administrative Expenses	<u>2,141</u>	
Total Operating Expenses		<u>966,002</u>

OPERATING INCOME 60,876

NONOPERATING REVENUES

Interest Income	21,708
Dividend Income	<u>49</u>

NET INCOME 82,633

RETAINED EARNINGS - RESERVED, BEGINNING 421,324

RETAINED EARNINGS - RESERVED, ENDING \$ 503,957

The accompanying notes are an integral part of this statement.

LINCOLN GENERAL HOSPITAL, INC.
INTERNAL SERVICE FUND
EMPLOYEE GROUP HEALTH & LIFE INSURANCE PLAN #501
STATEMENT OF CASH FLOWS
EIGHT MONTH PERIOD ENDED DECEMBER 31, 1996

CASH FLOWS FROM OPERATING ACTIVITIES

Net Income		\$ 82,633
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Changes in Assets & Liabilities:		
<u>(Increase) Decrease/Assets</u>		
Due from Lincoln General Hospital, Inc. for Plan Contributions	\$ 3,094	
Due from NurseSource Home Care, Inc. for Plan Contributions	(20,506)	
<u>Increase (Decrease)/Liabilities</u>		
Health Claims Payable	(512)	
Estimated Health Claims Incurred but not Reported	(56,400)	
Total Adjustments		(74,324)
NET CASH PROVIDED BY OPERATING ACTIVITIES		<u>8,309</u>
NET INCREASE IN CASH & CASH EQUIVALENTS		8,309
CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>702,063</u>
CASH & CASH EQUIVALENTS AT END OF YEAR		<u>\$ 710,372</u>

The accompanying notes are an integral part of this statement.

FIDUCIARY FUNDSExpendable Trust Funds

Expendable Trust Funds are used to account for funds that are to be used for purposes specified by the donor.

Mary B. Jarrell Scholarship Fund

This fund is used to account for funds that are to be used for nursing scholarships as specified by the donor.

LINCOLN GENERAL HOSPITAL, INC.
EXPENDABLE TRUST FUND
MARY B. JARRELL SCHOLARSHIP FUND
COMPARATIVE BALANCE SHEETS
DECEMBER 31, 1996 & APRIL 30, 1996

	December 31 <u>1 9 9 6</u>	April 30 <u>1 9 9 6</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 2,098	\$ 3,806
Investment Securities	<u>249,772</u>	<u>246,530</u>
TOTAL ASSETS	<u>\$ 251,870</u>	<u>\$ 250,336</u>
<u>FUND BALANCE</u>		
Reserved for Scholarships	<u>\$ 251,870</u>	<u>\$ 250,336</u>

The accompanying notes are an integral part of this statement.

OTHER INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
STRUCTURE BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

ROBERT E. HOLLADAY III, CPA

116 PINECREST DRIVE

RUSTON, LA 71270

MEMBER
AMERICAN INSTITUTE OF CPA'S
SOCIETY OF LOUISIANA CPA'S

TELEPHONE
318-255-0821

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
STRUCTURE BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Lincoln General Hospital, Inc.
Ruston, Louisiana

I have audited the financial statements and the combining and individual fund financial statements of Lincoln General Hospital, Inc. for the eight month period ended December 31, 1996, and have issued my report thereon dated February 20, 1997.

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

The management of Lincoln General Hospital, Inc. 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.

To the Board of Directors
Lincoln General Hospital, Inc.
Ruston, Louisiana

In planning and performing my audit of the financial statements and the combining and individual fund financial statements of Lincoln General Hospital, Inc., for the eight month period ended December 31, 1996, I obtained an understanding of the internal control structure. With respect to the internal control structure, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and the combining and individual fund financial statements and not to provide an opinion on the internal control structure. Accordingly, I do not express such an opinion.

My 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 and 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. I noted no matters involving the internal control structure and its operations that I consider to be material weaknesses as defined above.

This report is intended for the information of the Board of Directors, management, and state and federal audit agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.


R. E. Holladay III, CPA

Ruston, Louisiana
February 20, 1997

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH LAWS AND REGULATIONS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

ROBERT E. HOLLADAY III, CPA

116 PINECREST DRIVE

RUSTON, LA 71270

MEMBER
AMERICAN INSTITUTE OF CPA'S
SOCIETY OF LOUISIANA CPA'S

TELEPHONE
318-255-0821

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS
AND REGULATIONS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Lincoln General Hospital, Inc.
Ruston, Louisiana


I have audited the financial statements and the combining and individual fund financial statements of Lincoln General Hospital, Inc., as of and for the eight month period ended December 31, 1996, and have issued my report thereon dated February 20, 1997.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

This report is intended for the information of the Board of Directors, management, and state and federal audit agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.


R. E. Holladay III, CPA

Ruston, Louisiana
February 20, 1997