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MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1 d/b/a MOREHOUSE GENERAL HOSPITAL

May 31, 2007 and 2006

Contents

LAPORTE SEHRT ROMIG HAND
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

The Board of Commissioners
Morehouse Parish Hospital Service District No. 1
Bastrop, Louisiana

We have audited the accompanying basic financial statements of Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) as of and for the years ended May 31, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of May 31, 2007 and 2006, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the financial statements, in 2006, the Hospital adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which required additional disclosures regarding risks related to credit risk, interest rate risk, and foreign currency risk. Additionally, the Hospital adopted the provisions of GASB Statement No. 42, *Accounting and Financial Reporting of Capital Assets and for Insurance Recoveries*, related to impairment of capital assets and insurance recoveries.

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. The Hospital has incurred significant losses and experienced deteriorating working capital since 2001. These conditions raise substantial doubt about the Hospital's ability to continue as a going concern. The financial statements do not include adjustments, if any, to reflect the possible future effects on the recoverability and the classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty. As more fully described in Note 2 to the financial statements, the Hospital received significant reimbursement under a state program. However, continued reimbursement under this program cannot be assured.

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2007, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Hospital has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is required to supplement, although not required to be a part of, the basic financial statements.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

November 21, 2007

Morehouse Parish Hospital Service District No. 1
(d/b/a Morehouse General Hospital)
Balance Sheets
May 31, 2007 and 2006

	2007	2006
Assets		
Current assets		
Cash and cash equivalents	$ 375,325	$ 1,672,006
Patient Accounts Receivable, Less Allowances for uncollectible accounts of $2,100,590 in 2007 and $2,143,997 in 2006, respectively	3,666,869	3,959,852
Inventories	691,617	714,854
Designated cash and investments required for Current liabilities	348,789	331,020
Prepaid expenses and other assets	879,517	505,074
Total current assets	5,962,117	7,182,806
Non-current assets		
Designated cash and investments	452,627	466,380
Amounts due from physicians, net of allowance of uncollectible accounts of $718,000 in 2007 and $460,000 in 2006, respectively	148,508	329,362
Capital assets, net	6,576,821	7,226,291
Total non-current assets	7,177,956	8,022,033
Total assets	$ 13,140,073	$ 15,204,839

The accompanying notes are an integral part of these financial statements.

		2007		2006
Liabilities and net assets				
Current liabilities				
Accounts Payable	$	3,278,739	$	3,066,552
Employee Compensation and Payroll Tax Liabilities		908,622		1,218,049
Other accrued liabilities		1,093,890		877,909
Settlements due to third-party payors		104,522		1,012,424
Current portion of capital lease obligations		563,651		554,401
Current portion of long-term debt		3,848,788		2,831,020
Long-term debt in default of restrictive covenant reclassified as current		1,892,361		-
Total current liabilities		11,690,573		9,560,355
Non-current liabilities				
Settlements due to third-party payors		50,855		170,491
Capital lease obligations, less current portion		531,073		662,008
Long-term debt, less current portion		-		2,241,149
Total noncurrent liabilities		581,928		3,073,648
Total liabilities		12,272,501		12,634,003
Net assets				
Invested in capital assets, net of related debt		3,240,948		3,437,163
Restricted net assets		551,415		515,450
Unrestricted net assets		(2,924,791)		(1,381,777)
Total net assets		867,572		2,570,836
Total liabilities and net assets	$	13,140,073	$	15,204,839

Morehouse Parish Hospital Service District No. 1
(d/b/a Morehouse General Hospital)
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended May 31, 2007 and 2006

	2007	2006
Operating revenue		
Net patient service revenues, net of provision for bad debts of $4,107,190 in 2007 and $2,149,702 in 2006	$ 23,557,644	$ 23,125,168
Other operating revenue	1,980,572	1,469,574
Total operating revenue	25,538,216	24,594,742
Operating expenses		
Salaries and benefits	14,756,540	14,223,567
Outside services	4,328,971	4,000,905
Medical supplies and drugs	3,382,833	3,571,443
Other operating expenses	3,088,429	3,233,574
Other supplies	412,792	405,915
Depreciation and amortization	1,207,311	1,454,694
Insurance	453,283	454,144
Interest	337,888	229,084
Total operating expenses	27,968,047	27,573,326
Loss from operations	(2,429,831)	(2,978,584)
Non-operating revenue:		
Investment earnings	57,311	37,463
Gain on sale of home health unit license	468,750	-
Grant revenue	25,603	88,712
Contributions	3,798	2,155
Total non-operating revenue	555,462	128,330
Deficiency of revenues over expenses before capital contributions	(1,874,369)	(2,850,254)
Capital contributions	171,105	-
Change in net assets	(1,703,264)	(2,850,254)
Net assets,		
Beginning of year	2,570,836	5,421,090
End of year	$ 867,572	$ 2,570,836

See notes to the basic financial statements.

Morehouse Parish Hospital Service District No. 1
(d/b/a Morehouse General Hospital)
Statements of Cash Flows
Years Ended May 31, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Receipts from patients and third-party payors	$ 24,835,199	$ 26,364,389
Payments to employees and for employee-related costs	(14,632,616)	(13,797,924)
Payments for operating expenses	(11,841,863)	(12,852,191)
Net cash used in operating activities	(1,639,280)	(285,726)
Cash flows from capital and related financing activities		
Purchases of property, building and equipment	(100,256)	(38,203)
Payments on capital lease obligations	(439,685)	(554,331)
Payments on note payable and long-term debt	(331,020)	(314,157)
Interest expense paid	(312,888)	(204,084)
Net cash used in capital and related financing activities	(1,183,849)	(1,110,775)
Cash flows from non-capital financing activities		
Proceeds from certificates of indebtedness	3,500,000	2,500,000
Payments on certificates of indebtedness	(2,500,000)	(2,500,000)
Grants received	25,603	88,712
Contributions received	3,800	2,155
Interest expense paid	(25,000)	(25,000)
Net cash provided by non-capital financing activities	1,004,403	65,867
Cash flows from investing activities		
(Increase) Decrease in designated cash and investments, principally restricted cash and equivalents	(4,016)	3,550
Proceeds from sale of home health unit license	468,750	-
Investment income received	57,311	37,463
Net cash provided by investing activities	522,045	41,013
(Decrease) increase in cash and cash equivalents	(1,296,681)	(1,289,621)
Cash and cash equivalents		
Beginning of year	1,672,006	2,961,627
End of year	$ 375,325	$ 1,672,006

See notes to the basic financial statements.

Morehouse Parish Hospital Service District No. 1
(d/b/a Morehouse General Hospital)
Statements of Cash Flows (Continued)
Years Ended May 31, 2007 and 2006

	2007	2006
Reconciliation of operating loss to net cash used in operating activities		
Loss from operations	$ (2,429,831)	$ (2,978,584)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation and amortizaton	1,207,311	1,454,694
Interest expense paid	324,589	205,252
Provision for uncollectible accounts	4,107,190	2,149,702
Loss on disposal of capital assets	31,718	-
Changes in:		
Patient accounts receivable	(3,814,207)	(1,238,996)
Inventories, prepaid expenses and other assets	(170,532)	214,834
Third-party payor settlements	(1,027,538)	858,941
Accounts payable	212,187	(1,073,370)
Employee compensation, payroll taxes, and other accrued liabilities	(80,167)	121,801
Net cash used in operating activities	$ (1,639,280)	$ (285,726)
Supplemental disclosures of non-cash Financing and investing activities:		
Fully depreciated capital assets disposed	$ 153,845	$ 946,359
Capital lease obligation incurred for acquisition of equipment	$ 318,000	$ 602,250
Capital assets donated to the hospital	$ 171,105	$ -

See notes to the basic financial statements.

Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) was organized on December 17, 1982, under powers granted to parish police juries by the State of Louisiana. The geographical boundaries of the Hospital coincide with those of Morehouse Parish. All corporate powers are vested in a Board of Commissioners appointed by the Morehouse Parish Police Jury. The Hospital is exempt from income taxes as a political subdivision of the State of Louisiana under Section 115 of the Internal Revenue Code. The Hospital is also exempt from federal income tax under Section 501(a) as a hospital organization described in Section 501(c)(3). The federal income tax exemptions also extend to state income taxes.

Use of Estimates

The preparation of financial statements in accordance with accounting principles used in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989. As a governmental entity, the Hospital also follows certain accounting and disclosure requirements promulgated by the GASB.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less when purchased, excluding amounts whose use is limited by board designation or other arrangements under trust agreements.

Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Costs associated with capital asset acquisitions under $1,000 are generally expensed as incurred. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Land Improvements	15 to 20 Years
Buildings and Improvements	20 to 40 Years
Equipment, Computers, and Furniture	3 to 7 Years

Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

Assets held under capital lease obligations are included in equipment. These assets have been recorded at the present value of the minimum lease payments, which approximates the fair market value of the leased assets (see Note 8). Amortization of leased assets is provided for using the straight-line method over the term of the related lease and is included in depreciation expense.

Cost of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Hospital's interest cost was capitalized in either 2007 or 2006.

Grants and Contributions

From time to time, the Hospital receives grants from the State of Louisiana, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are non-capital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note 8. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues, when present. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Compensated Absences

The Hospital's employees earn paid time off (PTO) at varying rates depending upon length of service and other factors. Amounts earned, but not yet used totaled $587,269 and $665,428 as of May 31, 2007 and 2006, respectively. These amounts are reported as a component of *employee compensation and payroll tax liabilities* on the Hospital's balance sheets.

Risk Management

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

Investments in Debt and Equity Securities

Investments in debt and equity securities, when present, are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating revenue when earned. Unrealized gains (losses) reflected in investment income were not significant in 2007 and 2006.

Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Designated Cash and Investments

Assets limited as to use include cash, cash equivalents, and investments. These assets are designated as such in the accompanying balance sheets as they are held by bond trustees under related indenture agreements or designated as such by the Board of Commissioners.

Amounts classified as current assets represent amounts to be used to meet certain debt service requirements and other obligations classified as current liabilities.

Inventories

Inventories are valued at the latest invoice price, which approximates the lower of cost (first-in, first-out method) or market.

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 with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Net patient service revenue is reported net of provision for bad debts.

Charity Care

The Hospital provides care without charge, or at amounts less than established rates, to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify for charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records reflect the amount of charges foregone ($253,685 in 2007, and $147,920 in 2006, respectively) for services and supplies furnished under its charity care policy.

Reclassifications

The prior year financial statements have been reclassified to conform to their current year presentation.

Note 2. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts billed to patients, third-party payors, and others for services rendered. The Hospital provides medical services to government program beneficiaries and has agreements with other third-party payors that provide for payments at amounts different from established rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. The Hospital's provision for bad debts is classified as a reduction to net patient service revenue. During the years ended May 31, 2007 and 2006, approximately 71% of the Hospital's gross patient revenue was derived from Medicare and Medicaid program beneficiaries.

The Hospital is unable to predict the future course of federal, state, and local regulation or legislation, including Medicare and Medicaid statutes and regulations. Future changes could have a material adverse effect on the future financial results of the Hospital.

Retroactive settlements are provided for in some of the government payment programs outlined above, based on annual cost reports. Such settlements are estimated and recorded as amounts due to or from these programs in the accompanying financial statements. The differences between these estimates and final determination of amounts to be received or paid are based on audits by fiscal intermediaries and are reported as adjustments to net patient service revenue when such determinations are made. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. Settlements through May 31, 2006, for the Medicare program and through May 31, 2005, for the Medicaid program have been reviewed by program representatives, and adjustments have been recorded to reflect any revisions to the recorded estimates. These adjustments resulted in an increase in net patient service revenue of $105,304 in 2007, and $624,208 in 2006, respectively. The effect of any adjustments that might be made to cost reports still subject to review will be reported in the Hospital's financial position or results of operations as such determinations are made.

The Hospital receives payments from the Louisiana State Department of Health and Hospitals for Medicaid and self-pay uncompensated care service costs. The Hospital receives interim amounts each October that are appropriated in the State's current fiscal year based on an estimate utilizing the facility's costs incurred in the previous fiscal year. The Hospital recognized interim amounts of $3,543,993 and $3,640,211, in the fiscal years ended May 31, 2007 and 2006, respectively.

Current regulations require retroactive audit of the claimed uncompensated cost and comparison to the interim amounts paid in each fiscal year. Any overpayments will be recouped by Medicaid and the Hospital has not made any provisions for such recoupments. Management contends that interim amounts paid reasonably estimate the settlement. To the extent managements' estimates differ from actual results, the differences will be used to adjust income for the period when differences arise.

Note 3. Operating Results and Liquidity

As shown in the accompanying financial statements, the Hospital incurred an overall decrease in net assets of $(1,703,264) during the year ended May 31, 2007, and as of that date, the Hospital's current liabilities significantly exceeded its current assets. As of the date of these financial statements, the Hospital has again received reimbursements provided by the Louisiana Rural Hospital Preservation Act. While continued legislative appropriation of these funds cannot be assured, management expects to continue to derive a significant portion of revenue from this program in future years to fund a portion of its operating costs. Additionally, management has implemented several other initiatives to improve operating results, including the following:

- In November of 2006, the Hospital board entertained a proposal from a national Hospital consulting company to review the Hospital's services and delivery processes for possible improvements in efficiency and cost. We believe there are significant opportunities in this area. A decision on this engagement was accepted in January of 2007.

- Through attrition, the Hospital has eliminated two administrative positions since May 31, 2006.

- The Hospital Board of Commissioners approved a Hospital strategic initiative in July of 2006. The Hospital is currently seeking a guaranteed loan through the USDA's community facilities program, with the loan proceeds being used to renovate and remodel certain sections of the hospital including emergency room, radiology, laundry and purchase new equipment including CT Scanner, MRI, replace other medical equipment and recruit physicians. If secured, the Hospital will also refinance its annual operating credit facility and other debt in order to improve liquidity and cash position. The Hospital believes the additional revenue from the new physicians will be more than sufficient to provide cash flow for the debt service.

- In March of 2006, the Hospital implemented a full time hospitalist program with the goals of reducing transfers from the emergency room and stimulating additional utilization of hospital services.

- The Hospital has employed a new ob/gyn physician who has opened his practice in Bastrop in January of 2007. This physician will replace an existing ob/gyn who left in December of 2006.

Management expects that reimbursement under the Rural Preservation Act will continue to have a significant ongoing positive impact on the Hospital operations and, in conjunction with the effects of the other initiatives, will allow the Hospital to continue to improve its operating performance as well as strengthen its financial position.

Therefore, management anticipates the Hospital's future operating results will allow it to meet its operational, debt service, and capital needs. However, there are no assurances that such results will be achieved.

Note 4. Deposits and Investments

Louisiana state statutes authorize the Hospital to invest in direct obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal office in the State of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions.

In 2006, the Hospital adopted GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures*, which requires additional disclosures of investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk associated with interest-bearing investments. Such disclosures required by GASB 40 and applicable to the Hospital are reflected below.

Interest Rate Risk
The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit Risk
Louisiana's statutes also require that all the deposits of the Hospital be protected by insurance or collateral. The market value of collateral pledged must equal 100% of the deposits not covered by insurance. The Hospital's bank deposits consist of demand deposit accounts and certificates of deposit. These bank deposits are included in cash and cash equivalents and designated cash, and, as of May 31, 2007, the Hospital's deposits were fully insured or collateralized with securities held by the agent of the pledging banks in the Hospital's name.

Statutes authorize the Authority to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, and bankers' acceptances.

Concentration of Credit Risk
The Hospital places no limit on the amount it may invest in any one issuer. At May 31, 2007, the Hospital's invested funds consisted of certificates of deposit included in cash and cash equivalents. The Hospital maintained deposits in one financial institution in excess of FDIC insurance limits, however, as discussed above, the funds were covered by collateral held by the financial institution in the Hospital's name.

Note 4. Deposits and Investments (Continued)

As of May 31, 2007 and 2006, all of the Hospital's deposits and short term investments were considered cash and cash equivalents and are included in the Hospital's balance sheets as follows for May 31st:

	2007	2006
Current assets		
Cash and cash equivalents	$ 375,325	$ 1,672,006
Designated cash and equivalents required for current liabilities	348,789	331,020
Non-current assets		
Designated cash and equivalents	452,627	466,380
	$ 1,176,741	$ 2,469,406

Note 5. Designated Cash and Investments

The terms of the Hospital's 1997 Revenue Bonds require funds to be maintained on deposit in certain accounts with the trustee (see Note 8). The funds on deposit in the accounts are required to be invested by the trustee in accordance with the terms of the bond resolution. In addition, the Hospital's Board of Commissioners has designated certain assets to be used for future expansion and equipment additions. The composition of assets whose use is limited as of May 31, 2007 and 2006, was as follows:

	2007	2006
By board for specific purposes		
Certificates of deposit	$ 250,000	$ 281,949
Trusted funds (principally interest bearing cash and certificates of deposits)		
Debt service fund	39,609	39,007
Debt service reserve fund	473,436	462,005
Capital additions and contingencies fund	38,371	14,439
	551,416	515,451
Total designated cash and investments	801,416	797,400
Less: Amount required for current liabilities	(348,789)	(331,020)
Non-current designated cash and investments	$ 452,627	$ 466,380

Note 6. Capital Assets

Capital assets activity as of and for the year ended May 31, 2007, is as follows:

	May 31, 2006	Additions	Transfers and Disposals	**May 31, 2007**
Capital assets, not being depreciated				
Land	$ 272,384	$ -	$ -	**$ 272,384**
Total capital assets, not being depreciated	272,384	-	-	**272,384**
Capital assets, being depreciated				
Land improvements	625,500	-	-	**625,500**
Buildings	14,410,895	9,439	-	**14,420,334**
Equipment	23,299,613	559,490	(164,757)	**23,694,346**
Total capital assets, being depreciated	38,336,008	568,929	(164,757)	**38,740,180**
Less: accumulated depreciation	(31,382,101)	(1,207,311)	153,669	**(32,435,743)**
Total capital assets, being depreciated, net	6,953,907	(638,382)	(11,088)	**6,304,437**
Hospital capital assets, net	$ 7,226,291	$ (638,382)	$ (11,088)	**$ 6,576,821**

Morehouse Parish Hospital Service District No. 1
(d/b/a Morehouse General Hospital)

Notes to Basic Financial Statements

Note 6. Capital Assets (Continued)

Capital assets activity as of and for the year ended May 31, 2006, is as follows:

	May 31, 2005	Additions	Transfers and Disposals	May 31, 2006
Capital assets, not being depreciated				
Land	$ 272,384	$ -	$ -	$ 272,384
Total capital assets, not being depreciated	272,384	-	-	272,384
Capital assets, being depreciated				
Land improvements	625,500	-	-	625,500
Buildings	14,400,347	10,548	-	14,410,895
Equipment	23,616,066	663,020	(979,473)	23,299,613
Total capital assets, being depreciated	38,641,913	673,568	(979,473)	38,336,008
Less: accumulated depreciation	(30,873,766)	(1,454,694)	946,359	(31,382,101)
Total capital assets, being depreciated, net	7,768,147	(781,126)	(33,114)	6,953,907
Hospital capital assets, net	$ 8,040,531	$ (781,126)	$ (33,114)	$ 7,226,291

The Hospital leases certain major movable and other nonmovable equipment under operating leases and capital leases. Refer to Note 7 for amounts relating to these leases.

Note 7. Long - Term Liability Activity

Long-term liability activity as of and for the years ended May 31, 2007 and 2006, was as follows:

	May 31, 2006	Additions	Reductions	May 31, 2007	Due Within One Year	Long-Term Portion
Hospital revenue bonds, Series 1997	$ 2,572,169	$ -	$ (331,020)	$ 2,241,149	$ 2,241,149	$ -
Certificate of indebtedness, Series 2005a	2,500,000	-	(2,500,000)	-	-	-
Certificate of indebtedness, Series 2006	-	3,500,000	-	3,500,000	3,500,000	-
Capital lease obligations	1,216,409	318,000	(439,685)	1,094,724	563,651	531,073
Total bonds payable and capital leases	6,288,578	3,818,000	(3,270,705)	6,835,873	6,304,800	531,073
Other liabilities:						
Settlements due to third-party payors	1,182,915	91,957	(1,119,495)	155,377	104,522	50,855
Total long-term liabilities	$ 7,471,493	$ 3,909,957	$ (4,390,200)	$ 6,991,250	$ 6,409,322	$ 581,928

	May 31, 2005	Additions	Reductions	May 31, 2006	Due Within One Year	Long-Term Portion
Bonds payable and capital leases						
Hospital revenue bonds, Series 1997	$ 2,886,326	$ -	$ (314,157)	$ 2,572,169	$ 331,020	$ 2,241,149
Certificate of indebtedness, Series 2005b	2,500,000	-	(2,500,000)	-	-	-
Certificate of indebtedness, Series 2005a	-	2,500,000	-	2,500,000	2,500,000	-
Capital lease obligations	1,168,490	47,919	-	1,216,409	554,401	662,008
Total bonds payable and capital leases	6,554,816	2,547,919	(2,814,157)	6,288,578	3,385,421	2,903,157
Other liabilities:						
Settlements due to third-party payors	323,974	858,941	-	1,182,915	1,012,424	170,491
Total long-term liabilities	$ 6,878,790	$ 3,406,860	$ (2,814,157)	$ 7,471,493	$ 4,397,845	$ 3,073,648

Long-term debt as of May 31, 2007and 2006, consists of the following:

		2007	2006
Hospital revenue bonds, Series 1997	(A)	**$ 2,241,149**	$ 2,572,169
Certificate of indebtedness	(B)	**3,500,000**	2,500,000
Capital lease obligations	(C)	**1,094,724**	1,216,409
		6,835,873	6,288,578
Less long-term debt in default classified as a current liability		**(1,892,361)**	-
Less current maturities		**(4,412,439)**	(3,385,421)
		$ 531,073	$ 2,903,157

Note 7. Long - Term Liability Activity (Continued)

Long-term Debt Details

(A) The Hospital Revenue Bonds, Series 1997, are term bonds with an annual interest rate of 5.24%. Payment of the scheduled principal and interest on these bonds is due in monthly installments of $38,159. The 1997 Revenue Bonds are obligations of the Hospital secured by a pledge of the Hospital's revenue. Under the terms of the bond indenture, the Hospital is required to maintain, among other provisions, a specified minimum debt service coverage ratio. The Hospital was not in compliance with the specified debt service coverage ratio as of May 31, 2007. Regardless of the non-compliance with financial covenants, the Hospital has made scheduled payments of principal and interest.

As of November 6, 2007, the Hospital was unable to secure a waiver from the bond holder for restrictive covenant non-compliance for the year ended May 31, 2007. The bond indenture stipulates that if this covenant is not met that the Hospital will retain an independent consultant to make recommendations to increase the debt service coverage ratio to the required level, and that the Hospital will follow such consultant's recommendations to the extent feasible. As of the date of these financial statements, the Hospital's management has engaged consultants with approval by the Board of Commissioners.

As a result of the covenant default under the Bond Indenture, the entire principal amount of the bonds is presented as a current liability on the Hospital's balance sheet at May 31, 2007.

(B) The Hospital adopted a resolution during February 2007, issuing $3,500,000 of certificates of indebtedness, Series 2007, dated February 28, 2007, secured by and payable from a pledge of all revenues accruing to the Hospital for the calendar year ending December 31, 2007. The bond matures February 28, 2008. The previous (Series 2006) $2,500,000 certificate of indebtedness matured and was retired during the fiscal year ended May 31, 2007. The 2006 issue bore interest at 4.79% per annum. The interest per annum on the 2007 issue is 6.00% and is payable upon maturity.

(C) The Hospital has entered into capital leases for various types of equipment. Under the terms of the leasing arrangements, the Hospital is obligated to pay a monthly rental payment over the primary terms of the leases, which initially ranged from three to seven years.

Note 7. Long - Term Liability Activity (Continued)

Long-term Debt Details: (Continued)
During the year ended May 31, 2006, the Hospital issued a certificate of indebtedness in the amount of $2,500,000 to a local financial institution. The Hospital repaid the $2,500,000 plus interest during the year ended May 31, 2007.

Long-term debt principal and interest maturities, inclusive of capital leases, as of May 31, 2007, are as follows:

Year ending May 31:	Principal		Interest
2008	$ 4,412,439	*	$ 257,772
2009	635,399	*	132,998
2010	538,977	*	103,999
2011	528,203	*	75,224
2012	333,312	*	49,073
Thereafter	387,543	*	30,715
Total	$ 6,835,873		$ 649,781

* The above schedule contains scheduled maturities and does not reflect the reclassification of long-term debt in default as a current liability.

The future minimum rental commitments payable as if May 31, 2007, on capital lease obligations are as follows:

Year ending May 31:	
2008	625,211
2009	293,288
2010	146,157
2011	104,520
2012	34,918
Total minimum lease payments	1,204,094
Less amount representing interest	(109,370)
Present value of minimum lease payments	$ 1,094,724

Note 7. Long - Term Liability Activity (Continued)

Long-term Debt Details: (Continued)
The cost of all leased assets included under the equipment caption totaled $2,328,142 and $2,000,175, and accumulated amortization was $1,470,693 and $819,506 at May 31, 2007 and 2006, respectively.

The Hospital has also entered into various cancelable operating leases for equipment. Operating lease expense was approximately $242,311 and $288,566 for the years ended May 31, 2007 and 2006, respectively.

Note 8. Employee Retirement Plans

The Hospital sponsors two pension plans. Under the provisions of the Hospital's pension plan documents, the Hospital is required to contribute 10.0% of the eligible employee's salary and 7.5% of the non-eligible employee's salary annually. The plans provide for the contributions (and interest allocated to the employee's account) to become partially vested after three years of continuous employment and fully vested after seven years of continuous employment. The unvested portion of an account of an employee who terminates employment before becoming fully vested is used to reduce the Hospital's current year contribution. The Hospital's required contribution was $1,140,095 for 2007, and $1,106,107 for 2006, respectively.

Contributions made during the periods for the plans discussed above were $877,465 and $1,156,715 in 2007 and 2006, respectively. The Hospital's contribution payable related to the plan of $1,082,473 and $877,465 at May 31, 2007 and 2006, respectively, is included in accounts payable and accrued expenses on the accompanying balance sheets. Total payroll for all employees was $11,756,100 and $11,296,039 for the years ended May 31, 2007 and 2006, respectively. Substantially all employees of the Hospital are covered by the plan discussed above.

The Hospital established the Morehouse General Hospital Tax Deferred Savings Plan. This plan, which qualifies as a tax-sheltered annuity plan under Section 403(b) of the Internal Revenue Code, covers all employees who elect to participate. The plan allows participants to defer a portion of their annual compensation. The amount of annual contributions to the plan by participants is subject to certain limitations as defined in the plan agreement. The participants vest 100% immediately in their contributions and investment earnings of the plan. The plan agreement allows discretionary employer contributions to be made to the plan. No employer contributions were made during the years ended May 31, 2007 and 2006.

Retirement expense, net of forfeitures, related to the above plans included in salaries and benefits in the accompanying statements of revenues, expenses, and changes in net assets was $1,082,473 and $877,465 for the years ended May 31, 2007 and 2006, respectively.

Note 9. Commitments and Contingencies

During the ordinary course of operations, the Hospital has been named a defendant in lawsuits alleging medical malpractice. Since November 1, 2002, the Hospital has been self-insured for individual claims up to $100,000. For individual malpractice claims in excess of $100,000, the Hospital participates in the State of Louisiana Patient Compensation Fund (the "Fund"). The Fund provides malpractice insurance coverage on a claims-made basis for claims up to the statutory maximum exposure of $500,000, which currently exists under Louisiana law, plus interest and future medical costs. The Hospital has purchased additional malpractice insurance providing coverage up to $900,000 in the aggregate.

The Hospital has purchased commercial insurance that provides first-dollar coverage for workers' compensation claims. The Hospital was previously self-insured for employee health insurance up to $75,000 per claim. A liability was recorded when it is probable that a loss had been incurred and the amount of that loss could be reasonably estimated. Liabilities for claims incurred were reevaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors. During the year ended May 31, 2006, management purchased commercial insurance for employee health plan claims and, accordingly, was no longer self-insured.

Note 10. Government Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers in recent years. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Legislation and regulation at all levels of government have affected and are likely to continue to affect the operation of the Hospital. Federal health care reform legislation proposals debated in Congress in recent years have included 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 captivated payment arrangements with many, if not all, of the Hospital's principal payors.

Note 10. Government Regulations (Continued)

It is not possible at this time to determine the impact on the Hospital of government plans to reduce Medicare and Medicaid spending, government implementation of national and state health care 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. The Health Insurance Portability and Accountability Act ("HIPAA") was enacted August 21, 1996, to assure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Organizations were required to be in compliance with certain HIPAA provisions beginning in April 2004. Provisions not yet finalized are required to be implemented two years after the effective date of the regulation. Organizations are subject to significant fines and penalties if found to be not compliant with the provisions outlined in the regulations.

Note 11. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables due from patients and third-party payors was as follows for May 31st :

	2007	2006
Medicare	**33%**	35%
Medicaid	**19**	15
Managed Care	**15**	16
Self-Pay	**33**	34
	100%	100%

Note 12. Cooperative Endeavor Agreement

Effective May 23, 2006, the Hospital entered into a cooperative endeavor agreement with Morehouse Community Medical Centers, Inc. (MCMCI), a domestic corporation organized under the laws of the State of Louisiana which serves to operate a health center to deliver preventative and primary care to patients regardless of their ability to pay. MCMCI, like the Hospital, was formed for the sole purpose of serving the public interest of providing and delivering healthcare services to the citizens of northeast Louisiana. The considerations exchanged by each entity with the other are asserted to be proportionately equivalent, when the consideration paid is compared to the benefit received. Both the Hospital and MCMCI further show that the consideration paid, and the benefits received by each ultimately inure to the benefit of the public and public interest.

Under the terms of the agreement the Hospital provides human resources and payroll services, general accounting, purchases and material management, and facility and custodial services to MCMCI on a monthly basis in exchange for a monthly reimbursement of $5,196.

Note 12. Cooperative Endeavor Agreement (Continued)

Additionally, the Hospital has supplied MCMCI with medical and administrative staffing during its first year of operations. These services are being reimbursed to the Hospital at the cost of the individual salaries and related benefits. Finally, two clinic buildings are leased to MCMCI. The facilities used by MCMCI for operation of the pediatric and family medicine clinics are leased from the Hospital for a total combined rental of $26,980 per year. As of May 31, 2007 and 2006, the Hospital had receivables of $426,605 and $21,532, respectively, due from MCMCI in connection with this agreement.

Note 13. Investment in Affiliate

In March of 2007, the Hospital sold the license for its home health unit and received proceeds of $468,750 in connection with the sale. In addition to the cash proceeds, the Hospital received a 25% ownership interest in the newly formed entity, Trucare Home Health LLC (the LLC). The Hospital accounts for this investment under the equity method of accounting. As of May 31, 2007 the Hospital has not recorded an asset on its balance sheet for its investment interest in the LLC due to anticipated operating losses of the entity associated with the startup of operations in the months of March, April and May 2007.

Note 14. New Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements

During the year ended May 31, 2007, the Hospital adopted the following new pronouncements issued by the Governmental Accounting Standards Board, which had no significant effect on the Hospital's financial statements:

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued April 2004, and was effective for the Hospital beginning with its year ending May 31, 2007. This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supersedes existing guidance.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued June 2004, and was effective for the Hospital beginning with its year ending May 31, 2007. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits, expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.

Statement No. 47, *Accounting for Termination Benefits*, was effective for the Hospital beginning with its year ending May 31, 2007. This statement establishes the accounting standards for termination benefits.

Note 14. New Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements (Continued)

Statement No. 48, *Sales and Pledges of Receivable and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* issued September 2006 and was effective for the Hospital beginning with its Year ending May 31, 2007. This Statement establishes accounting and financial reporting standards for transactions in which a Government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also provides disclosure requirements for a government that pledges or commits future cash flows from a specific revenue source. In addition this Statement establishes accounting and financial reporting standards for intra-entity transfers of assets and future revenues.

As of May 31, 2007, the Governmental Accounting Standards Board has issued several statements not yet implemented by the Hospital. The Statements which might impact the Hospital are as follows:

Statement No. 49, Accounting *and Financial Reporting for Pollution Remediation Obligations,* issued November 2006, will be effective for the Hospital beginning with its year ending May 31, 2008. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. This standard requires the government to estimate the components of expected pollution remediation outlays and determine whether the outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired.

Statement No. 50, *Pension Disclosures,* an amendment of GASB Statement No. 25 and 27, issued May 2007, will be effective for the Hospital beginning with its year ending May 31, 2008. This Statement more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits (OPEB) and, in doing so, enhances information disclosed in notes to the financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits.

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* issued July 2007, will be effective for the Hospital beginning with its year ending May 31, 2010. This statement provides guidance regarding how to identify, account for and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is non-financial in nature, and has an initial useful life extending beyond a single reporting period.

The Hospital's management has not yet determined the effect these Statements will have on the Hospital's financial statements.

Note 15. Subsequent Events

In October 2007, the voters of Morehouse Parish, Louisiana approved a five year, five-millage property tax to be levied on the 2007 tax roll on all property subject to taxation by the Morehouse Parish Hospital Service District. This important component of the Hospital's fiscal recovery plans is currently estimated to provide annual tax revenues estimated at $673,000 and is to be used by the hospital for operations and maintenance.

Additionally, in October 2007, community program directors of the United States Department of Agriculture (USDA) in Louisiana met with Hospital management and staff regarding the Hospital's pending application for $12 million in direct and guaranteed loans that if received will be used to pay off current debt, update the Hospital's imaging equipment and to recruit new physicians (see discussion in Note 3). Feasibility analysts engaged by the Hospital have given a positive prognosis on the hospital's receipt of such a loan from the USDA's Office of Rural Development Community Facilities program. As of the date of issuance of these financial statements, the loan application remains pending approval by the USDA.

LaPorte Sehrt Romig Hand
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCEAND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTSPERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Commissioners
Morehouse Parish Hospital Service District No. 1
(d/b/a Morehouse General Hospital)
Bastrop, Louisiana

We have audited the basic financial statements of the governmental activities, the business-type activities, of Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) as of and for the year ended May 31, 2007, and have issued our report thereon dated November 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance or other matters that are required to be reported under Government Auditing Standards and are described below:

2007-1 Compliance with Bond Resolution

We noted that the Hospital was not in compliance with Section 5.1 of the Resolution relating to $4,750,000 Revenue Bonds (series 1997) reflecting the provisions of the resolutions adopted by Morehouse Parish Hospital Service District on November 3, 1997.

Management Response and Corrective Action

Management has begun to take steps its deems appropriate to eliminate the instance of non-compliance related to Section 5.1 of the Bond Resolution for the Hospital Revenue Bonds. Additionally, management has devoted significant effort to obtain a guaranteed loan through the United States Department of Agriculture's community facilities program. If approved, the Hospital will use the proceeds to refinance some of its existing debt, provide capital for new revenue producing equipment, allow for the recruitment of physicians, and improve its cash position.

This report is intended solely for the information and use of the Board of Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor of the State of Louisiana as a public document.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

November 21, 2007

Morehouse Parish Hospital Service District No. 1
(d/b/a Morehouse General Hospital)

Schedule of Prior Audit Findings

2006-1 Audit Report

We noted an instance of non-compliance regarding failure to submit the audited financial statements to the Office of the Legislative Auditor within six months of the close of the entity's fiscal year, as required by Louisiana Revised Statute 24:513.

Management Response and Corrective Action

The delay in the issuance of the audited financial statements was due to the need to resolve certain issues related to the Hospital's liquidity, and to request a waiver of certain bond covenant provisions. Measures are currently being undertaken to improve the Hospital's results of operations and financial position.

Status - RESOLVED

Management expects to file the fiscal year ended May 31, 2007 financial statements by the statutory due date as required.

2006-2 Compliance with Bond Resolution

We noted that the Hospital was not in compliance with Section 5.1 of the Resolution relating to $4,750,000 Revenue Bonds (series 1997) reflecting the provisions of the resolutions adopted by Morehouse Parish Hospital Service District on November 3, 1997.

Management Response and Corrective Action

Management has begun to take steps its deems appropriate to eliminate the instance of noncompliance in the future related to Section 5.1 of the Bond Resolution for the Hospital Revenue Bonds.

Status - NO LONGER APPLICABLE

Due to fiscal constraints experienced during the fiscal year ended May 31, 2007, the Hospital was again unable to meet the requirements of this covenant and the finding is repeated in the current year as finding 2007-1.

LAPORTE SEHRT
ROMIG HAND
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report
on Supplementary Information

To the Board of Commissioners
Morehouse Parish Hospital Service District No. 1
Bastrop, Louisiana

Our report on our audits of the basic financial statements of Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) for the years ended May 31, 2007 and 2006, appears on page 1. These audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information shown on page 30 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

November 21, 2007

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Morehouse Parish Hospital Service District No. 1
(d/b/a Morehouse General Hospital)
Schedule of Board of Commissioners and Compensation
For the Year Ended May 31, 2007

Commissioner	Total Paid
Dr. Carter Cox	$ -
Mattie Washington	520
Alfred Twymon	400
John Shackelford	-
Randy Bowen	520
Jack Scoggins	560
Total	$ 2,000

See independent auditors' report on supplementary information

MOREHOUSE GENERAL HOSPITAL

MANAGEMENT LETTER

May 31, 2007

LaPorte Sehrt
Romig Hand
Certified Public Accountants

November 21, 2007

Members of the Board of Commissioners
Morehouse Parish Hospital Service District No. 1
Bastrop, Louisiana

In planning and performing our audit of the financial statements of Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) for the year ended May 31, 2007 (on which we have issued our report dated November 21, 2007), in accordance with auditing standards generally accepted in the United States of America, we considered Morehouse General Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the hospital's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the hospital's internal control.

Our consideration of internal control was for the limited purposes described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

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This communication is intended solely for the information and use of management, members of the board of commissioners, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

LaPorte, Sehrt, Romig & Hand

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MOREHOUSE GENERAL HOSPITAL
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EXHIBIT I

GENERAL COMMENTS

MANAGEMENT AND STAFF COOPERATION DURING THE AUDIT

We wish to extend our thanks to the Hospital's governing board for the confidence they have placed in us once again by allowing to serve the Hospital's compliance and assurance needs. That process requires us to work closely with the Hospital management, financial and accounting staff to accomplish the stated audit objectives. Once again this year we were greatly pleased with the assistance and patience afforded us in this process.

Everyone involved on the audit team wishes to express their gratitude and recognize the efforts of the finance and accounting staff at MGH who were instrumental in bringing the audit to a successful conclusion this year. While we were greatly pleased with the cooperation we received throughout the Hospital, we wanted to specifically acknowledge the contributions of the finance and accounting staff for their efforts and assistance.

NEW AUDITING STANDARDS EFFECTIVE FOR NEXT YEAR

The Auditing Standards Board of the AICPA has recently issued new risk assessment standards that will shape future audits, including those of governmental entities. The reformulated audits will become more intensive, but entities will benefit from stronger audits that can increase their accountability and effectiveness as governing bodies.

The new audit risk standards, SAS Nos. 104-111, will help auditors to focus on areas with the greatest risk of material misstatement, by fraud or error. They incorporate many existing underlying concepts, while creating significant new requirements for auditors.

The overall audit goal continues to be to provide reasonable assurance that financial statements are free of material misstatement, which SAS No. 104 translates as a high, but not absolute, level.

Implementation of the new audit risk model promises some challenges and increased work for the audit team to initially implement. Larger sample sizes, and deeper understandings of controls in place at the specific account level likely will result. Entities will notice differences in the audit approach involving the nature and quantities of inquiries. Auditors will have an improved linkage of audit procedures with their assessed risk areas with more time spent on higher risk areas.

Since the new standards are effective for the Hospital's next financial statement audit and are expected to be far reaching, we have invested in multiple training sessions and comprehensive new audit software to accommodate the change. We'll be pleased to address any questions you may have regarding these new standards.

EXHIBIT II

ADMINISTRATIVE, INTERNAL CONTROL, AND OTHER MATTERS

2007 – 1 Accounts Receivable Aging

Observation:

Our audit disclosed that the Women Health Clinic's (WHC) computer system is not able to produce the reports needed in order to appropriately analyze account receivable. The WHC was not able to produce an aged account receivable detail which is necessary to effectively analyze and estimate an allowance for doubtful accounts.

Recommendation:

We recommend that policies and procedures be adopted, which will require all clinics to provide the Hospital accounting staff with an aged accounts receivable detail monthly.

Management Response:

Management stated that the hospital will develop a process in order to produce an aged account receivable detail.

EXHIBIT III

STATUS OF PRIOR YEAR COMMENTS

Included below is the status of prior year comments from the Hospital's fiscal year ended May 31, 2006, audit

None

APPENDIX

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF INTERNAL CONTROL

The following comments concerning management's responsibility for internal control and the objectives and inherent limitations of internal control are adapted from the Statements on Auditing Standards of the American Institute of Certified Public Accountants.

Management's Responsibility:

Management is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls.

Objectives:

The objectives of internal control 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.

Limitations:

Because of inherent limitations in any internal control, misstatements due to errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1

Bond Compliance Report

May 31, 2007

MOREHOUSE PARISH HOSPITAL
SERVICE DISTRICT NO. 1

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LAPORTE SEHRT
ROMIG HAND
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To Members of the Board of Commissioners
Morehouse Parish Hospital Service
District No. 1:

We have audited, in accordance with auditing standards generally accepted in the United States of America and in accordance with the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the balance sheet of **Morehouse Parish Hospital Service District No. 1 (the District)** as of May 31, 2007, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended, and have issued our report thereon dated November 15, 2007.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the terms, covenants, provisions, or conditions of Sections 2.7, 4.1, 4.2, 5.2 through 5.6, 6.1, 6.9, and 10.1 of the Bond Resolution relating to $4,750,000 Hospital Revenue Bonds (Series 1997) reflecting the provisions of Resolutions adopted by the Morehouse Parish Hospital Service District on November 3, 1997, except as noted below, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance

Section 5.1 requires that the Hospital maintain a debt service coverage ratio of 1.25. During our review of the schedule of Debt Service Coverage Ratio, we noted the Hospital was not in compliance with this section at May 31, 2007.

This report is intended solely for the information and use of the boards of commissioners and management of the District and the bond trustee and is not intended to be and should not be used by anyone other than these specified parties.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

Metairie, LA
November 21, 2007

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LAPORTE SEHRT
ROMIG HAND
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT ACCOUNTANT'S REPORT

To Members of The Board of Commissioners
Morehouse Parish Hospital Service
District No. 1:

We have examined management's assertion that the accompanying calculation of debt service coverage ratio is presented in accordance with section 5.1 of the Bond Resolution adopted by the Board of Commissioners of Morehouse Parish Hospital Service District No. 1 dated November 3, 1997 in connection with the issuance of $4,750,000 of Morehouse Parish Hospital Service District No. 1 Hospital Revenue Bonds (Series 1997), for the year ended May 31, 2007, as presented in the schedule on page 3. Management is responsible for the assertion. Our responsibility is to express an opinion on the assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting Morehouse Parish hospital Service District No. 1's Calculation of Debt Service Coverage ratio and performing such other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the calculation referred to above is presents, in all material respects, the debt service coverage ratio based on section 5.1 of the Bond Resolution adopted by the Board of Commissioners of Morehouse Parish Hospital Service District No. 1 dated November 3, 1997 in connection with the issuance of $4,750,000 of Morehouse Parish Hospital Service District No. 1 Hospital Revenue Bonds (Series 1997) for the year ended May 31, 2007, as presented on page 3.

This report is intended solely for the information and use of the board of commissioners and, management of the District, and the bond trustee and is not intended to be and should not be used by anyone other than these specified parties.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

Metairie, LA
November 21, 2007

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Morehouse Parish Hospital Service Disctrict No. 1
Calculation of Debt Service Coverage Ratio

	Year Ended May 31, 2007
Excess (Deficiency) of Adjusted Annual Revenues over Expenses	$ (1,703,264)
Add:	
Depreciation and Amortization	1,207,311
Interest Expense	337,888
Net Income Available for Debt Service	$ (158,065)
Annual Debt Service Requirement	$ 457,911
Debt Service Coverage Ratio as Calculated	***(0.35)***
Debt Service Coverage Ratio Requirement	**1.25**

The Hospital has not met the necessary 1.25% debt service coverage ratio as defined in Note 1.

Morehouse Parish Hospital
Service District No. 1

Notes To Calculation of Debt Service Coverage Ratio
For The Years Ended May 31, 2007

Note 1.

Basis Of Presentation

The accompanying Calculation of Debt Service Coverage Ratio, and managements' statements regarding compliance is based upon the following:

Debt Service Coverage Ratio shall mean for the period in question the ratio of Net Income Available for Debt Service to the Maximum Annual Debt Service.

Maximum Annual Debt Service shall mean the largest amount of principal and interest due on the bonds and any Additional Parity Bonds in any fiscal year ending on or after the date of determination.

Net Income Available for Debt Service shall mean with respect to any period of calculation, the excess of total adjusted revenues of the district over total expenses of the District (including without limitations all property, franchise, income, sales, use and other taxes, assessments and governmental charges) other than (i) depreciation, amortization and interest on long-term indebtedness (including the current portion there of, and (ii) any Federal, state and local taxes assessed with respect to the income of the District if and to the extent that such income shall not have been included in the determination of Adjusted Annual Revenues, all as determined in accordance with generally accepted accounting principles consistently applied; provided that no determination thereof shall take into account; (a) insurance proceeds payable as a result of casualty insurance received for services rendered by the District or by a physician on behalf of the District, the proceeds of casualty insurance but only to the extent that the loss resulting from the casualty is included in the total expenses of the District with respect to the period in question and the proceeds of business interruption insurance), (b) extraordinary items determined in accordance with generally accepted accounting principles, (c) gains and losses attributable to refundings, advance refundings and other early extinguishments of indebtedness, or (d) unrealized gains or losses on the valuation of investments.

Adjusted Annual Revenues shall mean, as of any date of determination thereof, the total Revenues (other than gains or losses upon defeasance of indebtedness and other than unrealized gains on the valuation of investments) of the District for the Fiscal Year in question, less (i) contractual adjustments with third party payors, (ii) adjustments for free services relating to such fiscal year and (iii) to the extent otherwise included therein, gifts grants, or bequests of a non-recurring nature to the extent such gifts, grants and bequests exceed the arithmetic mean of the gifts, grants and bequests of a non-recurring nature received by the District during the two immediately preceding fiscal years and the fiscal year for which the computation of adjusted annual revenue is being made.

Fiscal year shall mean the one-year accounting period of the District commencing on June 1, or such other period of twelve consecutive calendar months as shall be specified by the District.

Revenues for any period shall mean all revenues, income, receipts and other money received or accrued in such period by, or on behalf, of the District from whatever source, including all such revenues, income and other money received from, or in connection with, the operation of the Hospital, including without limitation, proceeds derived from (i) insurance, except where otherwise provided in the Resolution, (ii) accounts receivable, (iii) the sale of inventory and other tangible and intangible property, (iv) agreements respecting Medicare, Medicaid, and Blue Cross or similar or successor programs, (v) contract rights and other rights and assets, whether or not hereafter owned, held or possessed by or on behalf of the District with respect to the Hospital, and (vi) gifts, grants, bequests, contributions and donations made with respect to the Hospital, including the income and profits there from, exclusive of grants, gifts, bequests, contributions and donations to the extent specifically restricted by the donor to a particular purpose inconsistent with their uses as Revenues. The term "Revenues" shall not include gains or losses in the defeasance of indebtedness or unrealized gains on the valuation of investments.