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

Audits of Financial Statements

May 31, 2009 and 2008

Contents

LaPorte Sehrt
Romig Hand
Certified Public Accountants

Independent Auditor's Report

To the Board of Commissioners
Morehouse Parish Hospital Service District No. 1
(d/b/a Morehouse General Hospital)
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, 2009 and 2008, 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, 2009 and 2008, 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.

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2009, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 16, 2009

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Balance Sheets
May 31, 2009 and 2008

	2009	(As Restated) 2008
Assets		
Current assets		
Cash and cash equivalents	$ 962,761	$ 515,038
Patient accounts receivable, less allowance for uncollectible accounts of $1,530,519 in 2009 and $1,572,054 in 2008, respectively	4,035,421	3,319,350
Inventories	561,327	662,197
Settlements due from third-party payors	-	195,698
Designated cash and investments required for current liabilities	435,865	399,012
Prepaid expenses and other assets	495,601	885,352
Total current assets	6,490,975	5,976,647
Non-current assets		
Designated cash and investments	492,428	413,588
Investment in affiliate	204,112	189,987
Amounts due from physicians, net of allowance for uncollectible accounts of $175,538 in 2009 and $245,539 in 2008, respectively	33,333	142,051
Debt issue costs	306,457	91,642
Capital assets, net of accumulated depreciation of $34,071,804 in 2009 and $33,322,114 in 2008, respectively	6,708,318	6,228,726
Total non-current assets	7,744,648	7,065,994
Total assets	$ 14,235,623	$ 13,042,641

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

	2009	(As Restated) 2008
Liabilities and net assets		
Current liabilities		
Accounts payable, as restated (See Note 15)	**$ 2,593,527**	$ 4,157,177
Employee compensation and payroll tax liabilities	**941,327**	821,350
Other accrued liabilities	**658,029**	1,755,201
Settlements due to third-party payors	**680,828**	-
Current portion of capital lease obligations	**38,558**	278,910
Current portion of long-term debt	**1,135,865**	2,367,510
Total current liabilities	**6,048,134**	9,380,148
Non-current liabilities		
Capital lease obligations, less current portion	**271,348**	350,920
Long-term debt, less current portion	**5,707,306**	1,524,851
Total non-current liabilities	**5,978,654**	1,875,771
Total liabilities	**12,026,788**	11,255,919
Net assets		
Invested in capital assets, net of related debt	**4,873,561**	3,706,536
Restricted net assets	**678,293**	562,599
Unrestricted net assets, as restated (See Note 15)	**(3,343,019)**	(2,482,413)
Total net assets	**2,208,835**	1,786,722
Total liabilities and net assets	**$ 14,235,623**	$ 13,042,641

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

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended May 31, 2009 and 2008

	2009	(As Restated) 2008
Operating revenue		
Net patient service revenues, net of provision for bad debts of $2,609,550 in 2009 and $3,053,405 in 2008	$ 19,822,882	$ 19,668,331
Other operating revenue	1,083,479	1,087,317
Total operating revenue	20,906,361	20,755,648
Operating expenses		
Salaries and benefits	10,052,860	10,904,522
Outside services	3,805,366	3,749,620
Medical supplies and drugs	2,959,972	2,805,653
Other operating expenses	2,439,367	2,135,873
Other supplies	281,236	266,828
Depreciation and amortization	869,827	1,027,947
Insurance	449,683	442,432
Interest	511,506	366,556
Total operating expenses	21,369,817	21,699,431
Loss from operations	(463,456)	(943,783)
Non-operating revenue		
Investment earnings	38,902	67,982
Equity in net income of affiliate	-	189,987
Ad Valorem tax revenue	653,494	642,555
Casualty Gain - hail damage insurance proceeds	165,379	647,679
Grant revenue	20,165	524,730
Contributions	7,629	-
Total non-operating revenue	885,569	2,072,933
Change in net assets	422,113	1,129,150
Net assets,		
Beginning of year, as previously stated	1,786,722	867,572
Prior period adjustment (See Note 15)	-	(210,000)
Beginning of year, as restated	1,786,722	657,572
End of year	$ 2,208,835	$ 1,786,722

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

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Statements of Cash Flows
For the Years Ended May 31, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Receipts from patients and third-party payors	$ 21,121,250	$ 20,886,148
Payments to employees and for employee-related costs	(9,932,883)	(10,991,794)
Payments for operating expenses	(12,010,217)	(8,174,672)
Net cash (used in) provided by operating activities	(821,850)	1,719,682
Cash flows from capital and related financing activities		
Purchases of property, building and equipment	(1,070,002)	(513,276)
Payments on capital lease obligations	(653,774)	(631,471)
Payments on note payable and long-term debt	(392,940)	(348,788)
Proceeds from insurance settlement	165,379	647,679
Increase in debt issue costs	(214,815)	(91,642)
Interest expense paid	(491,822)	(346,555)
***Net cash used in capital and related* financing activities**	(2,657,974)	(1,284,053)
Cash flows from non-capital financing activities		
Ad Valorem taxes received	653,494	642,555
Proceeds from hospital revenue bonds	4,643,050	-
Proceeds from certificates of indebtedness	700,000	2,000,000
Payments on certificates of indebtedness	(2,000,000)	(3,500,000)
Grants received	20,165	524,730
Contributions received	7,629	-
Interest expense paid	(20,000)	(20,000)
Net cash provided by (used in) non-capital financing activities	4,004,338	(352,715)
Cash flows from investing activities		
(Increase) in designated cash and investments, principally restricted cash and equivalents	(115,692)	(11,183)
Investment income received	38,901	67,982
Net cash (used in) provided by investing activities	(76,791)	56,799
Increase in cash and cash equivalents	447,723	139,713
Cash and cash equivalents		
Beginning of year	515,038	375,325
End of year	$ 962,761	$ 515,038

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

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Statements of Cash Flows (Continued)
For the Years Ended May 31, 2009 and 2008

	2009	2008
Reconciliation of operating loss to net cash provided by (used in) operating activities		
Loss from operations	$ (463,456)	$ (943,783)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation and amortizaton	869,827	1,027,947
Interest expense paid	511,506	366,556
Provision for uncollectible accounts	2,609,550	3,053,405
Loss on disposal of capital assets	54,434	-
Changes in:		
Patient accounts receivable	(3,325,621)	(2,571,828)
Inventories, prepaid expenses and other assets	599,339	30,042
Third-party payor settlements	876,526	(351,075)
Accounts payable	(1,563,650)	534,380
Employee compensation, payroll taxes, and other accrued liabilities	(990,305)	574,038
Net cash (used in) provided by operating activities	$ (821,850)	$ 1,719,682
Supplemental disclosures of non-cash financing and investing activities		
Fully depreciated capital assets disposed	$ -	$ 141,577
Capital lease obligations incurred for acquisition of equipment	$ 333,852	$ 166,576

The accompanying notes are an integral part of these 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

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 6). 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.

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

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 2009 or 2008.

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 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 6. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

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 $660,027 and $573,539 as of May 31, 2009 and 2008, respectively. These amounts are reported as a component of *employee compensation and payroll tax liabilities* on the Hospital's balance sheets.

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

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.

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.

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 2009 and 2008.

Investments in associated companies are accounted for by the equity method of accounting under which the Hospital's share of the net income of the associated companies is recognized as income in the Hospital's statements of revenue, expenses and changes in net assets and are added to the investment account. The Hospital has interests in a company that operates a home health agency.

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.

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

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 ($39,340 in 2009, and $302,065 in 2008, respectively) for services and supplies furnished under its charity care policy.

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, 2009 and 2008, approximately 76% 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 a decrease in net patient service revenue of $31,303 in 2009, and an increase in net patient service revenue of $256,633 in 2008, 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.

Note 2. Net Patient Service Revenue (Continued)

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 $2,184,876 and $4,000,896, in the fiscal years ended May 31, 2009 and 2008, 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. The Hospital recognized an adjustment of prior years Uncompensated Care funding of $670,301, which resulted in a decrease of net patient service revenue in the fiscal year ended May 31, 2009. The Hospital has not made any provisions for any further 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. 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. However, the Hospital currently invests only in short term cash equivalents whose fair value approximates cost.

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, 2009, 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 Hospital 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.

Note 3. Deposits and Investments (Continued)

Concentration of Credit Risk

The Hospital places no limit on the amount it may invest in any one issuer. At May 31, 2009, 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.

As of May 31, 2009 and 2008, 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:

	2009	2008
Current assets		
Cash and cash equivalents	$ 962,761	$ 515,038
Designated cash and equivalents required for current liabilities	435,865	399,012
Non-current assets		
Designated cash and equivalents	492,428	413,588
	$ 1,891,054	$ 1,327,638

Note 4. Designated Cash and Investments

The terms of the Hospital's 1997 and 2008 Revenue Bonds require funds to be maintained on deposit in certain accounts with the trustee (see Note 6). 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, 2009 and 2008, was as follows:

	2009	2008
By board for specific purposes		
Certificates of deposit	$ 250,000	$ 250,000
Trusteed funds (principally interest bearing cash and certificates of deposits)		
Debt service fund	40,117	40,039
Debt service reserve fund	478,327	459,956
Litigation reserve fund	51,500	-
Depreciation reserve fund	108,349	62,605
	678,293	562,600
Total designated cash and investments	928,293	812,600
Less: Amount required for current liabilities	(435,865)	(399,012)
Non-current designated cash and investments	$ 492,428	$ 413,588

Note 5. Capital Assets

Capital assets activity as of and for the year ended May 31, 2009, is as follows:

	May 31, 2008	Additions	Transfers and Disposals	May 31, 2009
Capital assets, not being depreciated				
Land	$ 272,384	$ 76,740	$ (7,828)	$ 341,296
Construction in progress	444,464	726,883	(933,147)	238,200
Total capital assets, not being depreciated	716,848	803,623	(940,975)	579,496
Capital assets, being depreciated				
Land improvements	625,500	-	-	625,500
Buildings	14,426,991	15,051	734,253	15,176,295
Equipment	23,781,501	585,179	32,151	24,398,831
Total capital assets, being depreciated	38,833,992	600,230	766,404	40,200,626
Less: accumulated depreciation	(33,322,114)	(869,827)	120,137	(34,071,804)
Total capital assets, being depreciated, net	5,511,878	(269,597)	886,541	6,128,822
Hospital capital assets, net	$ 6,228,726	$ 534,026	$ (54,434)	$ 6,708,318

Capital assets activity as of and for the year ended May 31, 2008, is as follows:

	May 31, 2007	Additions	Transfers and Disposals	May 31, 2008
Capital assets, not being depreciated				
Land	$ 272,384	$ -	$ -	$ 272,384
Construction in progress	41,000	403,464		444,464
Total capital assets, not being depreciated	313,384	403,464	-	716,848
Capital assets, being depreciated				
Land improvements	625,500	-	-	625,500
Buildings	14,420,334	6,657	-	14,426,991
Equipment	23,653,346	269,731	(141,576)	23,781,501
Total capital assets, being depreciated	38,699,180	276,388	(141,576)	38,833,992
Less: accumulated depreciation	(32,435,743)	(1,027,947)	141,576	(33,322,114)
Total capital assets, being depreciated, net	6,263,437	(751,559)	-	5,511,878
Hospital capital assets, net	$ 6,576,821	$ (348,095)	$ -	$ 6,228,726

The Hospital leases certain major movable and other nonmovable equipment under operating leases and capital leases. Refer to Note 6 for amounts relating to these leases.

Note 6. Long - Term Liability and Subsequent Refinancing Activity

Long-term liability activity as of and for the years ended May 31, 2009 and 2008, was as follows:

	May 31, 2008	Additions	Reductions	May 31, 2009	Due Within One Year	Long-Term Portion
Bonds payable and capital leases						
Hospital revenue bonds, Series 1997	$ 1,892,361	$ -	$ (367,510)	$ 1,524,851	$ 387,237	$ 1,137,614
Hospital revenue bonds, Series 2008A	-	4,643,050	(24,730)	4,618,320	48,628	4,569,692
Certificate of indebtedness, Series 2007	2,000,000	-	(2,000,000)	-	-	-
Certificate of indebtedness, Series 2009	-	700,000	-	700,000	700,000	-
Capital lease obligations	629,830	333,852	(653,776)	309,906	38,558	271,348
Total bonds payable and capital leases	$ 4,522,191	$ 5,676,902	$ (3,046,016)	$ 7,153,077	$ 1,174,423	$ 5,978,654

	May 31, 2007	Additions	Reductions	May 31, 2008	Due Within One Year	Long-Term Portion
Bonds payable and capital leases						
Hospital revenue bonds, Series 1997	$ 2,241,149	$ -	$ (348,788)	$ 1,892,361	$ 367,510	$ 1,524,851
Certificate of indebtedness, Series 2007	-	2,000,000	-	2,000,000	2,000,000	-
Certificate of indebtedness, Series 2006	3,500,000	-	(3,500,000)	-	-	-
Capital lease obligations	1,094,724	166,578	(631,472)	629,830	278,910	350,920
Total bonds payable and capital leases	$ 6,835,873	$ 2,166,578	$ (4,480,260)	$ 4,522,191	$ 2,646,420	$ 1,875,771

Long-term debt as of May 31, 2009 and 2008, consists of the following:

		2009	2008
Hospital revenue bonds, Series 1997	(A)	**$ 1,524,851**	$ 1,892,361
Hospital revenue bonds, Series 2008A	(B)	**4,618,320**	-
Revenue anticipation notes, Series 2009 and prior	(C)	**700,000**	2,000,000
Capital lease obligations	(D)	**309,906**	629,830
		7,153,077	4,522,191
Less current maturities		**(1,174,423)**	(2,646,420)
		$ 5,978,654	$ 1,875,771

Long-Term Debt Details

(A) The Hospital Revenue Bonds, Series 1997, were term bonds with an annual interest rate of 5.24%. Payment of the scheduled principal and interest on these bonds was due in monthly installments of $38,159. The 1997 Revenue Bonds were obligations of the Hospital secured by a pledge of the Hospital's revenue. Under the terms of the bond indenture, the Hospital was required to maintain, among other provisions, a specified minimum debt service coverage ratio. The Hospital was in compliance with the specified debt service coverage ratio as of May 31, 2009. The Series 1997 bonds were refunded on November 3, 2009, upon issuance of the Bond Anticipation Note, Series 2009 as detailed below.

Note 6. Long - Term Liability and Subsequent Refinancing Activity (Continued)

Long-Term Debt Details (Continued)

(B) As a component of its plan for physical plant improvements, other capital assets acquisition, and overall financial restructuring, on September 26, 2008, the Hospital issued a Taxable Hospital Revenue Bond (USDA-90% Guaranteed), Series 2008A in the amount of $4,643,050 as authorized by a resolution enacted September 24, 2008. The bond matures September 26, 2037 and is secured by (i) an irrevocable pledge and assignment of the net revenues (as defined in the bond resolution) of the Hospital; (ii) a first mortgage on the Hospital; and (iii) a first security interest in equipment (as defined in the Bond Resolution). The pledge of net revenues was subject to the lien of the existing outstanding debt obligations detailed above prior to the refunding of those obligations in November 2009. The bond is guaranteed by the United States Department of Agriculture-Rural Development-Business and Cooperative Programs at a rate of 90% of the principal and interest of any loss that might occur, subject to stipulated conditions. The proceeds from the issuance are being used to settle certain existing accounts payable, accrued expenses and capital lease obligations of the Hospital. Terms of scheduled repayment require a total of 348 payments due on the first of each month. Payments begin October 1, 2008 and are currently scheduled in the amount of $32,767. The issue bears interest at a fixed rate of 7.5% through October 1, 2014. Beginning October 2, 2014, the interest rate will switch to a variable rate and the amount of the monthly payments will be adjusted as required. The Bond is subject to optional redemption by the Hospital at redemption processes and dates as defined in the bond resolution.

The bond resolution contains a number of restrictive covenants including a 1.2 to 1.0 current ratio, and a debt to tangible net worth of the Hospital not to exceed 9.0 to 1.0 ratio as determined in accordance of Generally Accepted Accounting Principles. As of May 31, 2009, the Hospital was not in compliance with some of the restrictive covenants included in the bond resolution, and has received a waiver of that covenant from the lender.

As of the date of these financial statements, the Hospital anticipates to issue $7,874,000 of additional parity bonds (Series B Bonds) to be purchased directly by the United States Department of Agriculture Rural Development-Community Facilities Program for the purposes of constructing and acquiring improvements, extensions and replacements to facilities and the advance refunding of existing long-term debt obligations. Interim financing obligations in anticipation of the Series B issuance will also be issued on a parity with the Series A issue.

Subsequent to the date of these financial statements, the Hospital board passed resolutions to issue $7,874,000 of Bond Anticipation Notes, Series 2009 (the Notes) to provide the interim financing prior to the issuance of the Series B Bonds described in the preceding paragraph. These Notes will be utilized for the purposes stated above and will be retired upon the issuance of the Series B Bonds; currently anticipated in 2010. The first Note Issuance was on November 3, 2009 in the amount of $1,230,000 and was used to refund, in their entirety, the Series 1997 Hospital Revenue Bonds, detailed in (A) above, and pay other project related costs. The Notes bear interest at a variable rate, which shall accrue and become payable at maturity. The Notes are subject to mandatory redemption upon issuance of the Series B Bonds.

Note 6. Long - Term Liability and Subsequent Refinancing Activity (Continued)

The Notes are secured by and payable solely from the proceeds of the Series B Bonds, the income and revenues of the Hospital, and the Multiple Indebtedness Mortgage and Security Agreement previously filed in connection with the issuance of the Series 2008A bonds discussed above.

As of May 31, 2009 and 2008, the Hospital had capitalized $306,457 and $91,642, respectively for debt issue costs in connection with the issuance of the debt obligations. Amortization of these costs is anticipated to begin during the fiscal year 2010 upon issuance of the Series B Bonds.

(C) The Hospital adopted a resolution during February 2009, issuing $700,000 of certificates of indebtedness (revenue anticipation notes), Series 2009, dated February 5, 2009, secured by and payable from a pledge of all revenues accruing to the Hospital for the calendar year ending December 31, 2009. The obligation matures June 1, 2010. The previous (Series 2008) $2,000,000 obligations matured and were retired during the fiscal year ended May 31, 2009. The 2008 issue bore interest at 6.00% per annum. The interest per annum on the 2009 issue will not exceed 8.00% per annum and is payable upon maturity.

(D) The Hospital entered into a capital lease agreement with an equipment supplier for the purpose of acquiring three hyperbaric chambers. The lease calls for 84 monthly payments of $5,290. The lease is collateralized by the equipment and transfers ownership at the end of the term for a final payment of $1. All other capital lease obligations were paid in full during fiscal year ended May 31, 2009.

Long-term debt principal and interest maturities, inclusive of capital leases, as of May 31, 2009, are as follows:

Year ending May 31:	Principal	Interest
2010	$ 1,174,423	$ 482,170
2011	502,076	412,519
2012	531,739	382,854
2013	409,889	352,067
2014	119,324	337,360
Thereafter	4,415,626	4,876,571
Total	$ 7,153,077	$ 6,843,541

Included in the table above as a component of each year's total required principal and interest payments, is the scheduled debt service for the Series 1997 revenue bonds. As indicated, these bonds were refunded in November 2009, by the Series 2009 Bond Anticipation Notes which are intended to serve as an interim financing until the anticipated issuance of the Series B Bonds in 2010. While the scheduled debt service of the Series B bonds is currently unknown, the maturities reflected above are expected to reasonably approximate future principal and interest debt service requirements.

Note 6. Long - Term Liability and Subsequent Refinancing Activity (Continued)

The future minimum rental commitments payable as if May 31, 2009, on capital lease obligations are as follows:

Year ending May 31:		Amount
2010	$	63,480
2011		63,480
2012		63,480
2013		63,480
2014		63,480
Thereafter		84,686
Total minimum lease payments		402,086
Less amount representing interest		(92,180)
Present value of minimum lease payments	$	309,906

During the year ended May 31, 2009, the Hospital used a portion of the proceeds of the Series 2008A bond issuance to acquire a substantial amount of equipment that was previously held under capital lease obligations. The cost of all leased assets included under the equipment caption on the balance sheet totaled $333,852 and $1,490,201, at May 31, 2009 and 2008, respectively. The related accumulated amortization was $31,795 and $912,172 at May 31, 2009 and 2008, respectively.

The Hospital has also entered into various cancelable operating leases for equipment. Operating lease expense was approximately $169,497 and $199,451 for the years ended May 31, 2009 and 2008, respectively.

Note 7. 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 7.5% 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 $606,382 for 2009, and $707,511 for 2008, respectively.

Contributions made during the periods for the plans discussed above were $1,690,821 and $-0- in 2009 and 2008, respectively. The Hospital's contribution payable related to the plan of $606,382 and $1,726,821 at May 31, 2009 and 2008, respectively, is included in accounts payable and accrued expenses on the accompanying balance sheets. Total payroll for all employees was $8,714,619 and $9,150,530 for the years ended May 31, 2009 and 2008, respectively. Substantially all employees of the Hospital are covered by the plan discussed above.

Note 7. Employee Retirement Plans (Continued)

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, 2009 and 2008.

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 $606,382 and $644,347 for the years ended May 31, 2009 and 2008, respectively.

Note 8. Commitments and Contingencies

The Hospital is a defendant in a number of legal actions arising in the ordinary course of business. While the final outcome cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on the Hospital's financial statements. 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 and health insurance claims.

Note 9. 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.

Note 9. Government Regulations (Continued)

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.

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 c are 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 10. *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 :

	2009	2008
Medicare	**38%**	36%
Medicaid	**23**	24
Managed Care	**12**	12
Self-Pay	**27**	28
	100%	100%

Note 11. *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.

Additionally, the Hospital has supplied MCMCI with medical and administrative staffing during its first year of operations. These services were billed to MCMCI at the cost of the individual salaries and related benefits. Finally, two clinic buildings were 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, 2009 and 2008, the Hospital had receivables of $226,338 and $360,047, respectively, due from MCMCI in connection with this agreement and included as component of "other assets" on the balance sheet. The agreement was terminated in November 2007 and the Hospital is pursuing payment for the remaining balance from MCMCI.

Note 12. Property Tax Revenue

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. During fiscal year 2009, the Hospital received property tax revenues in the amount of $653,494.

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, 2009 and 2008, the Hospital recorded an asset on its balance sheet for its investment interest in the LLC in the amount of $204,112 and $189,987, respectively.

Note 13. Investment in Affiliate (Continued)

The results of operations and financial position of the LLC as of and for the year ended May 31, 2009 are summarized below:

Condensed income statement information for the 12 months ended December 31, 2008:	
Net patient revenue	$ 2,681,932
Expenses	2,436,430
Net income	$ 245,502
Condensed balance sheet information as of December 31, 2008:	
Current assets	$ 339,206
Noncurrent assets	639,981
Total assets	$ 979,187
Current liabilities	$ 136,706
Noncurrent liabilities	129,779
Total liabilities	266,485
Members' equity	712,702
Total liabilities and members' equity	$ 979,187

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

During the year ended May 31, 2009, 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. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, issued November 2006, was effective for the Hospital with its year ended May 31, 2009. 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.

As of May 31, 2009, 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:

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

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.

Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments,* issued June 2008, will be effective for the Hospital with its year ending May 31, 2010. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, issued June 2008, will be effective for the Hospital with its year ending May 31, 2010. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, issued March 2009, will be effective for the Hospital with its year ending May 31, 2011. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

Statement No. 55, *The Hierarchy of General Accepted Accounting Principles for State and Local Governments*, issued March 2009, will be effective for the Hospital with its year ending May 31, 2010. The objective of this statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Statements Board's (GASB) authoritative literature.

Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statement of Auditing Standards*, issued March 2009, will be effective for the Hospital with its year ending May 31, 2010. The objective of the statement is to incorporate into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants Statements on Auditing Standards.

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

Note 15. Prior Period Adjustment

In 2001 the Hospital signed a lease for a computerized drug and cabinet system that was accounted for as a capital lease. The payment terms of the lease were renegotiated several times by the Hospital's previous administration, and a lease purchase option was added.

Note 15. Prior Period Adjustment (Continued)

During 2009 the lessor, through an audit of its own records, discovered that a final lease payment was due under the lease. This matter has been disputed as the most recently executed lease omitted reference to the final lease payment. The parties have verbally agreed to settle the matter of approximately $210,000. Because the omission of this remaining obligation relates to a prior period, the May 31, 2008 financial statements have been restated to recognize the liability. Additionally, for the fiscal year end 2008, beginning unrestricted net assets have been decreased by $210,000 from the amount previously reported

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
(d/b/a Morehouse General Hospital)
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, 2009 and 2008, 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 pages 26 - 29 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 16, 2009

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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, 2009

Commissioner		Total Paid
Alfred Twymon	$	360
Bobby Nugent		200
Mike Wooden		200
Kindred Priest, Sr.		80
Mattie Washington		80
Dr. Donald Quinn		-
Dr. Carter Cox, Chairman		-
Total	$	920

Cheryl Faulkenberry, Hospital Administrator, serves as the Hospital's Secretary.

See independent auditor's report on supplementary information.

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Schedule of Insurance Coverages
For the Year Ended May 31, 2009

COVERAGE	MAJOR LIMITS OF LIABILITY	DEDUCTIBLE	POLICY PERIOD	INSURANCE CARRIER	POLICY NUMBER
Professional / General Liability					
Each Occurrence Limit	$1,000,000.00	$500,000.00	11/01/08-11/01/09	Homeland Insurance Co. of NY	MPP-1979-08
Annual Aggregate Limit	$3,000,000.00	$500,000.00			
Personal & Advertising Injury Limit	$1,000,000.00	$50,000.00			
Products / Completed Operations Aggregate Limit	Included	$50,000.00			
Fire Legal Liability	$50,000.00	$50,000.00			
Medical Payments - Off Premises Care					
Per Person	Excluded				
Per Accident	Excluded				
Retroactive Date: Prof - 11/01/2005 GL - 11/01/2005					
Physicians:					
Dr Janos Gouth Retro Date: 1/16/07	$1M/$3M	$25,000.00			
Dr. John Peter Robert, Retro Date: 11/1/08	$1M/$3M	$25,000.00			
Employee Benefits Liability Retro Date: 11/01/07	$1M/$3M	$1,000.00			
Claims Expense inside the Limit of Liability					
Excess Professional Liability	N/A				
Each Occurrence Limit					
Annual Aggregate Limit					
Umbrella Policy	N/A				
Excess Professional / General Liability, Auto and Employers' Liability					
Retroactive Date:					
Directors & Officers Liability					
Liability Limit (A & B)	$2,000,000.00	$0/$0/$25,000	05/31/08 to 05/31/2009	Travelers Casualty & Surety Company of America	104426170C
Entity Coverage (C)	Included	$25,000			
Employment Practice Liability	Included	$50,000			
Regulatory Action:	$250,000.00	$100,000			
Pending & Prior Proceeding Date					
Continuity Date:					
Directors & Officers Liability *continued*					
Government Funds					
Third Party Liability					
Punitive Damages					
Anti-Trust 25% co-ins.	$1,000,000	$100,000			
Property Damage					
Direct Damage / Real and Personal Property	$41,919,813	$5,000	03/01/09-03/01/10	The American Ins. Co.	MZG80901947
Business Loss of Income	$23,840,000	$5,000			
Extra Expense	$5,000,000	$5,000			
Earthquake	$50,000,000	$25,000			
Flood	Excluded at Main Hospital All Other: $4,595,076	$25,000			

See independent auditor's report on supplementary information.

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Schedule of Insurance Coverages (Continued)
For the Year Ended May 31, 2009

COVERAGE	MAJOR LIMITS OF LIABILITY	DEDUCTIBLE	POLICY PERIOD	INSURANCE CARRIER	POLICY NUMBER
Boiler & Machinery (Equipment Breakdown)					
Direct Damage / Real and Personal Property	$65,759,183	$10,000	03/01/09-03/01/10	The American Ins. Co.	MZG80901947
Business Interruption / Extra Expense/Service Interruption	Included	24 hrs after time of loss or 24 hrs before notice to company, whichever is later			
Perishable Stock	$10,000,000				
Hazardous Substance	$250,000				
Expediting Expense	Included				
Data Restoration	$50,000				
Automobile and/or Ambulance Liability					
Liability Limit	$1,000,000 CSL	N/A	03/04/09-03/04/10	Fireman's Fund Ins. Co.	MZA80272454
Hired and Non-Owned Liability	$1,000,000 CSL				
Medical Payments	$5,000				
Uninsured / Underinsured Motorist	$1,000,000 CSL				
Automobile and/or Physical Damage					
Comprehensive	ACV	$500	03/04/09-03/04/10	Fireman's Fund Ins. Co.	MZA80272454
Collision		$500 / Ambulance $1,000			
Non-Owned / Hired Car Physical Damage		$500			
Rental Reimbursement	$1,500 for a period of 45 days or less	24 hour			
Crime					
Employee Theft - A1	$500,000	$7,500	11/11/08-11/11/09	Travelers Casualty & Surety Company of America	105209484
Third Party Liability - A3	Excluded	Excluded			
Forgery of Alteration - B	$500,000	$7,500			
Theft, Disappearence & Destruction - C&D	$500,000	$7,500			
Money Orders & Counterfeit Currency - E	Excluded	Excluded			
Computer Fraud - F1	$500,000	$7,500			
Funds Transfer - G	$500,000	$7,500			
Claims Expense - I	$5,000	$ -			
Fiduciary Liability					
Liability Limit	$1,000,000	$ -	11/11/08-11/11/09	Travelers Casualty & Surety Co of America	105209484
ERISA Fidelity Bond - A2					
Liability Limit	$500,000	$ -	11/11/08-11/11/09	Travelers Casualty & Surety Co of America	105209484
Workers' Compensation & Employers' Liability					
Employers' Liability					
Each Employee	$1,000,000	$ -	10/26/08-10/26/09	Bridgefield Casualty Insurance Company	0198-01677
Each Accident	$1,000,000	$ -			
Policy Limit	$1,000,000	$ -			
Experience Mod. - .89					

See independent auditor's report on supplementary information.

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Schedule of Designated Cash and Investment Fund Activity
For the Year Ended May 31, 2009

	Beginning Balance May 31, 2008	Series 1997 Bond Deposits	Series 2008 Bond Deposits	Earnings	Withdrawls	Transfers	Ending Balance May 31, 2009
By board for specific purposes:							
Certificates of deposit	$ 250,000	$ -	$ -	$ -	$ -	$ -	$ 250,000
Trusteed funds (principally interest bearing cash and certificates of deposits):							
Debt service fund	40,039	457,911	-	78	(457,911)	-	40,117
Debt service reserve fund	459,956	76,318	16,383	1,988	-	(76,318)	478,327
Litigation reserve fund	-	-	51,500	-	-	-	51,500
Depreciation reserve fund	62,605	22,896	22,500	348	-	-	108,349
	562,600	557,125	90,383	2,414	(457,911)	(76,318)	678,293
Total designated cash and investments:	$ 812,600	$ 557,125	$ 90,383	$ 2,414	$ (457,911)	$ (76,318)	$ 928,293

Notes:
Interest earned from litigation reserve fund is deposited to general fund (hospital revenue fund).
Debt service reserve fund transfers were for debt service in June 2008 and January 2009 and were reinstated in February 2009.
Debt service reserve funds deposits related to Series 2008 Bond requirements consist of 10 deposits of $1,638.35 begining in October 2008.
Depreciation reserve fund deposits realted to Series 2008 Bond requirements consist of 10 deposits of $2,500.00 begining in October 2008.

See independent auditor's report on supplementary information.

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*

To 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 Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) as of and for the year ended May 31, 2009, and have issued our report thereon dated November 16, 2009. 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. We consider the deficiency 2009-01 described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

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.

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Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency referred to above is not a material weaknesses.

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 one instance of non-compliance that is required to be reported under Government Auditing Standards. This instance is included in the Schedule of Findings and Questioned Costs as item 2009-02.

We noted certain other matters that we reported to management in a separate letter dated November 16, 2009.

This report is intended for the information of the Board of Commissioners, management, and the Legislative Auditor of the State of Louisiana, and is not intended to be and should not be used by anyone other than these 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 16, 2009

LaPorte Sehrt Romig Hand
Certified Public Accountants

Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

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

<u>Compliance</u>

We have audited the compliance of Morehouse Parish Hospital Service District No. 1 (d/b/a Morehouse General Hospital) (the Hospital) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended May 31, 2009. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Hospital's compliance with those requirements.

In our opinion, the Hospital complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended May 31, 2009.

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Internal Control Over Compliance

The management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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 combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control. Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

November 16, 2009

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a MOREHOUSE GENERAL HOSPITAL)
Schedule of Expenditures of Federal Awards
For the Year Ended May 31, 2009

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity No.	Federal Revenue/ Expenditures Recognized
U.S. Department of Agriculture			
Direct Award			
Business and Industry Guaranteed Loan Program	10.768	NA	$ 4,178,745
Total U.S. Department of Agriculture			4,178,745
Total Expenditures of Federal Awards			$ 4,178,745

CFDA = Catalog of Federal Domestic Assistance

See accompanying notes to schedule of expenditur es of federal awards.

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hospital and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. USDA Business and Industry Loan Guarantee Program

During the year ended May 31, 2009 the Hospital issued its Series 2008A taxable revenue bond in the amount of $4,643,050. The bond matures September 26, 2037 and is guaranteed by the United States Department of Agriculture-Rural Development-Business and Cooperative Programs at a rate of 90% of the principal and interest for any loss that might occur, subject to stipulated conditions. The proceeds from the issuance are being used to settle certain existing accounts payable, accrued expenses and capital lease obligations of the Hospital. Expenditures recognized on the schedule of expenditures of federal awards in the amount of $4,178,745 represent 90% of the total loan proceeds expended during the fiscal year ended May 31, 2009.

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

Schedule of Findings and Questioned Costs

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

• Material weakness identified?	___ Yes	X No
• Significant deficiency identified that is not considered to be a material weakness?	X Yes	___ None Reported
Non-compliance material to financial statements noted?	___ Yes	X No

Federal Awards

Internal control over major programs:

• Material weakness identified?	___ Yes	X No
• Significant deficiency identified that is not considered to be a material weakness?	___ Yes	X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	___ Yes	X No

Identification of major programs

CFDA Number(s)	Name of Federal Program or Cluster
10.768	United States Department of Agriculture Business and Industry Guaranteed Loans

Dollar threshold used to distinguish between Type A and Type B programs	$ 300,000	
Auditee qualified as low-risk auditee?	___ Yes	X No

II. Findings Related to the Basic Financial Statements

2009-01 Segregation of Duties - Purchasing

Condition: Our audit disclosed that one individual is responsible for entering purchase orders, receiving inventory, and updating the ledger. This combination of duties represents a concentration of incompatible functions and significantly increases the chance of an error or irregularity going undetected.

Cause: The Hospital has a limited budget available to maintain staffing levels to optimize segregation of duties in certain areas

Effect: The condition results in a weakness in the Hospital's internal controls over purchasing, procurement and asset management.

Recommendation: We believe these are incompatible functions and suggest that these functions be segregated among other employees to protect the assets of the organization.

Management Response and Corrective Action:

We agree with the recommendation but with the limited staff available and other available resources a complete segregation of duties may not be practical at this time.

Status – IN PROCESS

2009-02 Compliance with Bond Resolution

Condition: We noted that the Hospital was not in compliance with Section 17 of the Bond Resolution relating to the $4,643,050 Series 2008A Hospital Revenue Bonds requiring the maintenance of restrictive covenants including a 1.2 to 1.0 ratio of current assets to current liabilities. Subsequent to year end the Hospital obtained a satisfactory waiver of this instance of noncompliance.

Cause: The Hospital maintained the required ratio however, recorded certain unplanned liabilities associated with notification of adjustment of a prior year's receipt of Uncompensated Care funding from the State Medicaid program, and a previously unrecorded final payment associated with a prior year's equipment lease obligation.

Effect: The condition results in a an instance of noncompliance.

Recommendation: We recognize that liabilities such as those described above will arise, but encourage management to continue its efforts to improve liquidity to minimize the impact of such adjustments should they occur, and reduce the potential that these items will lead to difficulties with maintaining compliance with covenants contained in the bond resolution.

Management Response and Corrective Action: **Management fully intends to comply with the requirements of all bond resolutions, but asserts that the unexpected timing of the recognition of the obligations which lead to the noncompliance with the stated ratio was difficult to predict or plan for. Management continues its efforts to increase the liquidity and overall financial position of the Hospital and believes it will be back in compliance with this requirement upon receipt of the current Uncompensated Care funding in November 2009 and the subsequent settlement of these obligations.**

Status – **IN PROCESS**

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

- None -

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

Schedule of Prior Audit Findings

Prior Year Findings Related to the Basic Financial Statements

2008 - 01 Segregation of Duties - Purchasing

Condition: Our audit disclosed that one individual is responsible for entering purchase orders, receiving inventory, and updating the ledger. This combination of duties represents a concentration of incompatible functions and significantly increases the chance of an error or irregularity going undetected.

Status: This condition has been repeated in the current year as finding 2009-01.

2008 - 02 Segregation of Duties Payroll

Condition: The Human Resources Department is responsible for preparing payroll input, reviewing the payroll journals from the payroll system, finalizing each payroll for employees and amounts, determining the bank transfer, distribution of bank transfer to the employee's accounts for each payroll. This combination of duties represents a concentration of incompatible functions and significantly increases the chance of an error or irregularity going undetected.

Recommendation: We recommended policies and procedures be put in place to remove access to payroll processing function from the human resource department. We suggested that these functions be segregated among other employees to protect the assets of the organization.

Management Response: **Payroll responsibilities will be transferred to the accounting by end of Fiscal Year 09 to provide better controls.**

Status: Resolved.

MOREHOUSE PARISH HOSPITAL SERVICE DISTRICT NO. 1

Bond Compliance Report

May 31, 2009

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, 2009, 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 16, 2009.

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 Section 17(a) through (r), of the Bond Resolution relating to the $4,643,050 Taxable Hospital Revenue Bonds (Series 2008A) reflecting the provisions of Resolutions adopted by the Morehouse Parish Hospital Service District on September 26, 2008, insofar as they relate to accounting matters, except for a violation of the provision in Section 17(h), whereby the ratio of current assets to net current liabilities for year ended May 31, 2009, was 1.07, which is less then the 1.2:1.0 specified, and a violation of the provision in Section 17(e), that requires submission of audited financial statements within 120 days of after the close of the fiscal year. The lending institution is aware of the non-compliance and has agreed to waive the violations. However, our audit was not directed primarily toward obtaining knowledge of such compliance.

This report is intended solely for the information and use of the Board of Commissioners, 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 16, 2009

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MORBHOUSE GENERAL HOSPITAL
MANAGEMENT LETTER
May 31, 2009

LaPorte Sehrt
Romig Hand
Certified Public Accountants

November 16, 2009

To the 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, 2009 (on which we have issued our report dated November 16, 2009), 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 purpose described in the first paragraph and would not necessarily indentify all deficiencies in internal control that might be material weaknesses.

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A description of the responsibility of management for establishing and maintaining internal control, and the objectives and inherent limitations of internal control, is set forth in the attached Appendix, and should be read in conjunction with this letter. Our current year comments and recommendations are presented in Exhibits I and II and are listed in the table of contents thereto. Exhibit III details the status of prior year comments.

Certain control conditions that have been previously communicated to you, in writing, by us or by others within your organization are not repeated herein. Exhibit II, however, contains descriptions of other identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses.

This letter is intended solely for the information and use of the Board of Commissioners, management, and the Legislative Auditor of the State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss these comments with you, and, if desired, to assist you in implementing any of the suggestions.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

MOREHOUSE GENERAL HOSPITAL
MANAGEMENT LETTER
TABLE OF CONTENTS

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 Mr. Jim Allbritton and Ms. Virginia Loveday for their efforts and assistance.

EXHIBIT II

ADMINISTRATIVE, INTERNAL CONTROL AND OTHER MATTERS

2009 - M1 Payroll Internal Review

Observation:

We noted in a review of the Hospital's internal controls over payroll that the Hospital does not have an individual independent of the payroll process perform a periodic review of employees actual pay in comparison to the approved pay rate located in the employees personnel file.

Recommendation:

We suggest that an individual independent of the payroll process perform a periodic review of employees actual pay in comparison to the approved pay rate located in the employees personnel file. The review can be completed on a sample basis and substantiate the accuracy and reasonableness of salary expense

Management Response:

Management concurs with the recommendation and will direct a disinterested party in accounting to perform this task on a limited and quarterly basis.

EXHIBIT III

STATUS OF PRIOR YEAR COMMENTS

2008 - M1 Check Signing Process

Observation:

We noted in a review of the Hospital's internal controls over disbursements and expenditures that all disbursements are electronically signed. At the present time, all checks irrespective of amount are valid when signed electronically.

Recommendation:

We recommend that policies or procedures be adopted which require a manual co-signature by an authorized check signer to accompany the electronic signature on all checks over a predetermined dollar threshold. This will significantly enhance internal control procedures over cash disbursements.

When strictly followed, this policy provides for strong control over the cash disbursements process, but it can hinder operations when there are a large number of checks requiring a manual signature and authorized check signers are unavailable. In an effort to relieve this problem while retaining strong controls, we suggest that the Hospital consider the following options:

- Require at least one manual signature for amounts exceeding $10,000 (the threshold is a matter of judgment. Many larger facilities have higher thresholds, not because their volume of activity is greater, but because they are able to achieve a greater segregation of duties and, therefore, often have stronger compensating controls.)

- Establish a strict list of exceptions to the manual signature requirement for normal and recurring monthly disbursements, such as rent, utilities, etc., upon identification and approval of the Board of Commissioners.

- Continue to permit both signatures to be electronically generated for disbursements under the threshold established above.

- Consider the need to add an additional authorized check signer to ensure that a manual signature can always be obtained when required. Care should be taken, however that any additional signer is separate from the purchasing and recordation functions.

We feel that the implementation of one or all of the above policies could strengthen the Hospital's authorization and approval process of disbursements while reducing some of the difficulties and problems associated with the implementation of the policy.

Management Response: **Management will recommend the following policy changes:**

- **Require at least one manual signature for amounts exceeding a predetermined threshold.**

- **Establish a strict list of exceptions to the manual signature requirement for normal and recurring monthly disbursements.**
- **Add a third signatory to the current approved list.**

Status: In process. The Hospital did add a third signatory to the current approved list during the year but we do not feel the issue is resolved as a result of this change. Management Indicates that the implementation of the changes to the process will be completed by the end of the 3rd quarter of the fiscal year 2010.

2008 - M2 Accounts Receivable Allowances for Satellites and Clinics

Observation:

The Hospital does not review and adjust allowance for doubtful accounts and contractual allowances regularly for satellites and clinics.

Recommendation:

The Hospital should review the adequacy of the allowance during the year and appropriately adjust the allowance. This can be done by conducting an overall evaluation of the accounts and reviewing the success rate of collection efforts. These efforts should minimize the need for a year-end adjustment of this account as well as improve the accuracy of interim financial statements.

Management Response: Management concurs with this recommendation and will proceed with analysis of payments to establish proper allowances for accounting purposes.

Status: In process. Management is in the process of implementing the recommendations.

2008 - M3 Accrued Paid Time Off

Observation:

The Hospital does not have a policy which limits the amount of paid time off an employee can accumulate. Our audit disclosed that many employees have accrued several months of vacation time. This could cause cash flows difficulties upon the termination of certain employees.

Recommendation:

We recommend that the Hospital develop a policy which will limit the amount of paid time off an employee can accrue.

Management Response: Management concurs with recommendation and will establish a policy to cap PTO accruals.

Status: In process. Management has a policy but it is not strictly enforced, Management will review this issue and develop a strategy for this problem.

2008 - M4 Safeguarding Assets

Observation:

Currently, all employees have access to the inventory storage room. However, these assets are not monitored at all times by receiving personnel. Employees are required to sign out for a key to get into the storage room, but they do not track the items which are taken. This situation creates the possibility that hospital assets could be taken by unauthorized personnel.

Recommendation:

Listed below are some of our recommendations to improve controls over physical inventory.

a. Requiring personnel to sign for items taken
b. Designate a shift person to monitoring after hour activity in storage
c. Surveillance camera

Management Response: **Management concurs and will review, install and document adequate controls before end of FY 09.**

Status : Resolved. Employees no longer have access to storage room after hours. An on call shift person has been assigned in case employees need access.

2008 - M5 Outstanding Checks

Observation:

At the time of our audit, there were several large checks that had been outstanding for several months or longer. Tracking outstanding checks is an important control procedure that ensures that all outgoing checks are accounted for.

Recommendation:

We suggest that an accurate outstanding check list be kept for each bank account and a periodic review of the list be performed on a timely basis. If necessary, stop payment notices should be sent to the bank.

Management Response: **Management is aware of the issue and will begin a review of the oldest credits by year at each quarter end and process payment refunds accordingly and/or process reports including funds to the Louisiana Department of Revenue and Unclaimed Property Division.**

Status : In process. Outstanding checks have been reclassified from a reconciling item on the bank statement to a liability. We recommend that Management monitor its process for locating the recipients of these unclaimed checks. Equally important as this liability continues to grow management should be aware that there are statutorily prescribed time periods whereby after efforts have been exhausted to contact patients or vendors the balances owed must be remitted to the Unclaimed Property Division of the State Treasury Department. Failure to follow the prescribed guidelines can result in fines and assessment of interest.

2007 - M1 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 has received consultant report on employed physician practices and will be instituting recommendations in a timely manner.**

Status: **In process.**

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.