

HOSPITAL SERVICE DISTRICT NO. 1
OF THE PARISH OF BEAUREGARD

ANNUAL FINANCIAL STATEMENTS
WITH AUDITOR'S REPORT

JUNE 30, 2007

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

Release Date 2/13/08

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John A. Windham, CPA

A Professional Corporation

1620 North Pine Street
DeRidder, LA 70634
Tel: (337) 462-3211
Fax: (337) 462-0640

John A. Windham, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Hospital Service District No. 1
of the Parish of Beauregard
Merryville, Louisiana

I was engaged to audit the accompanying financial statements of the business-type activities and the major fund of the Hospital Service District No. 1 of the Parish of Beauregard, a component unit of the Beauregard Parish Police Jury, as of and for the year ended June 30, 2007, which collectively comprise the district's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hospital Service District No. 1 of the Parish of Beauregard's management.

The District has not had an audit of its financial statements for the last four fiscal years. Records and documents pertaining to these unaudited years have been lost and or destroyed. Due to the lack of financial records for these prior years, no documentation exist to support beginning balances of the current years financial statements or to produce the required statements of cash flows, accordingly the statement of cash flows has been omitted from the district's basic financial statements. The scope of my work on these beginning balances was not sufficient to enable me to express and I do not express an opinion on these financial statements.

The accompanying financial statements have been prepared assuming that the Hospital Service District No. 1 of the Parish of Beauregard will continue as a going concern. As discussed in note 9 to the financial statements, the District may not be able to continue as a going concern due to the large past due balances of its bond and note payment requirements as well as the \$291,381 past due amount of payroll taxes owed to the IRS. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 21, 2007 on my consideration of the Hospital Service District No. 1's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my 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 considered in assessing the results of the audit I was engaged to perform.

Hospital Service District No. 1, a component unit of the Beauregard Parish Police Jury, DeRidder, Louisiana, has not presented management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Board Members
Hospital Service District No. 1
of the Parish of Beauregard
Merryville, Louisiana

I was engaged to conduct an audit for the purpose of forming opinions on the financial statements that collectively comprise the Hospital Service District No. 1 of the Parish of Beauregard's basic financial statements. The schedule of prior year audit findings and schedule of current year audit findings and management's response are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of prior year audit findings and schedule of current year audit findings and management's response have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, I express no opinion on them.

J. H. Windham, CPA

Merryville, Louisiana
December 21, 2007

BASIC FINANCIAL STATEMENTS

Hospital Service District No. 1
of the Parish of Beauregard
Beauregard Parish Police Jury
DeRidder, Louisiana

Statement A

Statement of Net Assets
June 30, 2007

Assets	Business-Type Activities - Enterprise Fund <u>Nursing Care</u>
Current Assets:	
Cash and cash equivalents	\$ 41,287
Receivables:	
Accounts	231,250
Prepaid insurance	20,133
Total current assets	<u>\$ 292,670</u>
Restricted Assets:	
Cash bond reserve fund	<u>\$ 443</u>
Noncurrent Assets:	
Land	\$ 2,359
Utility plant and equipment - net	523,317
Bond issuance cost - net	1,537
Total noncurrent assets	<u>\$ 527,213</u>
Total assets	<u><u>\$ 820,326</u></u>
Liabilities	
Current Liabilities:	
Accounts payable	\$ 158,902
Payroll taxes payable	304,072
Accrued salaries payable	24,547
Total current liabilities	<u>\$ 487,521</u>
Liabilities payable from restricted assets:	
Accrued interest payable	\$ 385,798
Current portion of revenue bonds	623,066
Current portion of note payable	595,332
Total liabilities payable from restricted assets	<u>\$ 1,604,196</u>
Noncurrent Liabilities:	
Note payable - due in more than one year	\$ 58,014
Revenue bonds - due in more than one year	140,000
Total noncurrent liabilities	<u>\$ 198,014</u>
Total liabilities	<u>\$ 2,289,731</u>
Net Assets	
Invested in capital assets - net of related debt	\$ (890,736)
Restricted for:	
Debt service	(1,603,753)
Unrestricted	1,025,084
Total net assets	<u>\$ (1,469,405)</u>
Total liabilities and net assets	<u><u>\$ 820,326</u></u>

The accompanying notes are an integral part of this statement.

Hospital Service District No. 1
of the Parish of Beauregard
Beauregard Parish Police Jury
DeRidder, Louisiana

Statement B

Statement of Activities
For the Year Ended June 30, 2007

Program Activities	<u>Expenses</u>	<u>Program Revenues</u>		<u>Business-type Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Business-type activities:				
Nursing Center	<u>\$ 2,253,192</u>	<u>\$ 2,184,872</u>	<u>\$ 1,500</u>	<u>\$ (66,820)</u>
		General revenues:		
		Investment earnings		5
		Vending machine revenue		972
		Miscellaneous revenue		204
			Total general revenues	<u>1,181</u>
			Change in net assets	<u>(65,639)</u>
		Net assets at beginning of year		<u>(1,403,766)</u>
		Net assets at end of year		<u>\$ (1,469,405)</u>

The accompanying notes are an integral part of the statement.

Hospital Service District No. 1
of the Parish of Beauregard
Beauregard Parish Police Jury
DeRidder, Louisiana

Statement C

Statement of Net Assets
Proprietary Fund
June 30, 2007

Assets	Business-Type Activities - <u>Enterprise Fund</u> <u>Nursing Care</u>
Current Assets:	
Cash and cash equivalents	\$ 41,287
Receivables:	
Accounts	231,250
Prepaid insurance	20,133
Total current assets	<u>\$ 292,670</u>
Restricted Assets:	
Cash bond reserve fund	<u>\$ 443</u>
Noncurrent Assets:	
Land	\$ 2,359
Utility plant and equipment - net	523,317
Bond issuance cost - net	1,537
Total noncurrent assets	<u>\$ 527,213</u>
Total assets	<u>\$ 820,326</u>
Liabilities	
Current Liabilities:	
Accounts payable	\$ 158,902
Payroll taxes payable	304,072
Accrued salaries payable	24,547
Total current liabilities	<u>\$ 487,521</u>
Liabilities payable from restricted assets:	
Accrued interest payable	\$ 385,798
Current portion of revenue bonds	623,066
Current portion of note payable	595,332
Total liabilities payable from restricted assets	<u>\$ 1,604,196</u>
Noncurrent Liabilities:	
Note payable - due in more than one year	\$ 58,014
Revenue bonds - due in more than one year	140,000
Total noncurrent liabilities	<u>\$ 198,014</u>
Total liabilities	<u>\$ 2,289,731</u>
Net Assets	
Invested in capital assets - net of related debt	\$ (890,736)
Restricted for:	
Debt service	(1,603,753)
Unrestricted	1,025,084
Total net assets	<u>\$ (1,469,405)</u>
Total liabilities and net assets	<u>\$ 820,326</u>

The accompanying notes are an integral part of this statement.

Hospital Service District No. 1
of the Parish of Beauregard
Beauregard Parish Police Jury
DeRidder, Louisiana

Statement D

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund <u>Nursing Care</u>
Operating revenues:	
Charges for services	\$ 2,181,132
Dietary sales	3,240
Leases and rentals	500
Total operating revenues	<u>\$ 2,184,872</u>
Operating expenses:	
Personal services	\$ 1,233,772
Supplies	147,550
Contractual services	371,786
Utilities	88,342
Depreciation	59,709
Amortization	1,025
Bed taxes and penalties	147,265
Insurance	129,776
Total operating expenses	<u>\$ 2,179,225</u>
Income (loss) from operations	<u>\$ 5,647</u>
Nonoperating revenues (expenses):	
Investment income	\$ 5
Interest expense	(73,967)
Miscellaneous revenue	204
Vending machine revenue	972
Local donations	1,500
Total nonoperating revenue	<u>\$ (71,286)</u>
Change in net assets	\$ (65,639)
Net assets at beginning of year	<u>(1,403,766)</u>
Net assets at end of year	<u>\$ (1,469,405)</u>

The accompanying notes are an integral part of this statement.

Hospital Service District No. 1 of the Parish of Beauregard

Notes to the Financial Statements
As of and for the Year Ended June 30, 2007

INTRODUCTION

The Hospital Service District No. 1 of the Parish of Beauregard is a political subdivision of the State created by an ordinance adopted by the Beauregard Parish Police Jury. The Hospital Service District is governed by a Board of Commissioners appointed by the Beauregard Parish Police Jury and the Town of Merryville, Louisiana. The Board of Commissioners are not compensated for their services. Since May 1, 1997, the District maintains a long-term care nursing facility.

The District is located in southwest Beauregard Parish in the southwestern region of the State of Louisiana. The District provides nursing care services to approximately sixty residents and employs approximately seventy employees.

The accounting and reporting policies of the Hospital Service District No. 1 of the Parish of Beauregard conform to generally accepted accounting principles as applicable to governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:517 and to the guides set forth in the Louisiana Municipal Audit and Accounting Guide, and to the industry audit guide, Audits of State and Local Governmental Units.

GASB Statement No. 14, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Hospital Service District No. 1 of the Parish of Beauregard is considered a component unit of the Beauregard Parish Police Jury. As a component unit, the accompanying financial statements are included within the reporting of the primary government, either blended into those financial statements or separately reported as discrete component units.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Hospital Service District No. 1 of the Parish of Beauregard. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Hospital Service District No. 1 of the Parish of Beauregard reports the following proprietary fund:

The Proprietary Fund accounts for operations (a) where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Hospital Service District No. 1 of the Parish of Beauregard

Notes to the Financial Statements (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Charges for services of providing nursing care to residents comprise the operating revenue of the District's enterprise fund. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the entity's policy to use restricted resources first, and then unrestricted resources as they are needed.

C. Deposits and Investments

The District's cash is considered to be cash on hand, and demand deposits. Cash equivalents include amounts in time deposits and short-term investments with original maturities of three months or less from the date of acquisition. State law and the Hospital Service District No. 1 of the Parish of Beauregard's investment policy allow the entity to invest in collateralized certificates of deposits, government backed securities, commercial paper, the state sponsored investment pool, and mutual funds consisting solely of government backed securities.

D. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

E. Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the business-type activities columns in the government-wide financial statements. Capital assets are capitalized at historical cost or estimated cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District capitalizes all capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense included during the current fiscal year was \$73,967. Of this amount none was included as part of the cost of capital assets under construction in connection with the District's construction projects.

Hospital Service District No. 1 of the Parish of Beauregard

Notes to the Financial Statements (Continued)

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Distribution system	40-50 years
Buildings and building improvements	20-40 years
Furniture and fixtures	5-15 years
Machinery and equipment	3-15 years
Vehicles	5 years

G. Compensated Absences

The District has a formal leave policy but does not provide for the accumulation and vesting of leave.

H. Long Term Obligations

In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

I. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events within the control of the District, which are either unusual in nature or infrequent in occurrence. The district had no extraordinary or special items as of June 30, 2007.

J. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS

At June 30, 2007, the District has cash (book balances) totaling \$41,730 as follows:

Demand deposits	\$ 41,287
Interest bearing demand deposits	443
Total	<u>\$ 41,730</u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At June 30, 2007, the District has \$58,153 in deposits (collected bank balances). These deposits are secured from risk by \$58,153 of federal deposit insurance.

Hospital Service District No. 1 of the Parish of Beauregard

Notes to the Financial Statements (Continued)

3. RECEIVABLES

The receivables of \$231,250 at June 30, 2007, are as follows:

<u>Class of receivable</u>	
Accounts	\$ 231,250

4. CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2007, for the primary government is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 2,359	\$ -	\$ -	\$ 2,359
Capital assets being depreciated				
Buildings	2,640,855	-	-	2,640,855
Furniture and fixtures	266,183	10,457	-	276,640
Machinery and equipment	828,307	29,128	-	857,435
Total capital assets being depreciated	<u>3,735,345</u>	<u>39,585</u>	<u>-</u>	<u>3,774,930</u>
Less accumulated depreciation for:				
Buildings	2,154,985	47,213	-	2,202,198
Furniture and fixtures	238,696	5,855	-	244,551
Machinery and equipment	798,223	6,641	-	804,864
Total accumulated depreciation	<u>3,191,904</u>	<u>59,709</u>	<u>-</u>	<u>3,251,613</u>
Total business-type assets being depreciated, net	<u>\$ 543,441</u>	<u>\$ (20,124)</u>	<u>\$ -</u>	<u>\$ 523,317</u>

5. ACCOUNTS AND OTHER PAYABLES

The payables of \$487,521 at June 30, 2007, are as follows:

Accounts	\$ 158,902
Payroll taxes	304,072
Accrued salaries	24,547
Total	<u>\$ 487,521</u>

6. RETIREMENT SYSTEMS

All employees of the District are members of the Federal Social Security System. The District contributes 7.65% of gross salaries up the appropriate statutory limits to that system. The Federal Social Security System administrates the plan and pays benefits.

Hospital Service District No. 1 of the Parish of Beauregard

Notes to the Financial Statements (Continued)

7. LONG-TERM OBLIGATIONS

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2007:

	Note Payable	Revenue Bonds	Total
Debt payable, July 1, 2006	\$ 653,346	\$ 763,066	\$ 1,416,412
Debts	-	-	-
Debt payable, June 30, 2007	\$ 653,346	\$ 763,066	\$ 1,416,412

The following is a summary of the current (due in one year or less) and the long-term (due in more than one year) portions of long-term obligations as of June 30, 2007:

	Note Payable	Revenue Bonds	Total
Current portion	\$ 595,332	\$ 623,066	\$ 1,218,398
Long-term portion	58,014	140,000	198,014
Total	\$ 653,346	\$ 763,066	\$ 1,416,412

Bonds payable at June 30, 2007 are comprised of the following individual issues:

Revenue bonds:

\$2,240,000 Revenue Bonds, Series 1978, dated December 28, 1978,
due in annual installments of \$35,000 to \$140,000
through December 28, 2008; interest at 5.00% \$763,066

Note Payable:

\$979,587, Note Payable, Series 1997, dated December 28, 1997,
due in monthly installments of \$9,669 beginning January 28, 1998
through December 28, 2008; interest at 5.00% \$653,346

The annual requirements to amortize all debt outstanding as of June 30, 2007 including interest payments of \$394,874 are as follows:

Year Ending	General Obligation Bonds		Revenue Bonds		Total
	Principal	Interest	Principal	Interest	
2008	595,332	158,037	623,066	230,437	1,606,872
2009	58,014	2,900	140,000	3,500	204,414
Totals	\$ 653,346	\$ 160,937	\$ 763,066	\$ 233,937	\$ 1,811,286

The following special funds were created from the issuance of 1978 Revenue Bonds. Such funds are required to be maintained as long as any of the bonds or interest thereon are outstanding and unpaid. The funds are described as follows:

- a. Nursing Center Revenue Bond and Interest Sinking Fund – to pay the principal and interest on the bonds as the principal matures and interest comes due and to receive monthly deposits equal to 1/12th of the next principal and interest payments on the bonds.
- b. Bond Reserve Fund – to receive monthly deposits of \$1,094.20 on or before the 20th of each month to pay for the principal or interest on the bonds at any time there are not sufficient funds available in the sinking funds. Payments into this fund continue until the balance is equal to \$151,250. At June 30, 2007, this fund had a cash balance of \$443.

Hospital Service District No. 1 of the Parish of Beauregard

Notes to the Financial Statements (Concluded)

- c. District Depreciation and Contingencies Fund – to receive monthly deposits of \$1,094 on or before the 20th of each month. This fund is to pay the principal or interest on the bonds at any time there are not sufficient funds available in the sinking fund and to provide for extensions, additions, improvements and replacements to the District facilities.

As of June 30, 2007 the sinking fund and the depreciation and contingency fund are not established. The reserve fund has a balance of \$443 and no monthly deposits are being made to the fund.

A summary of bond issuance cost at June 30, 2007 is as follows:

Bond issuance cost	\$ 30,750
less: accumulated amortization	<u>(29,213)</u>
Net bond issuance cost	<u>\$ 1,537</u>

8. RESTRICTED NET ASSETS

RESTRICTED ASSETS

Revenue bonds sinking funds	\$ -
Revenue bonds reserve fund	443
Revenue bonds depreciation and contingency funds	-
Total	<u>\$ 443</u>

Less:

LIABILITIES PAYABLE FROM RESTRICTED ASSETS

Current portion of revenue bonds and note payable	\$ 1,218,398
Accrued interest on revenue bonds and note payable	<u>385,798</u>
Total	<u>\$ 1,604,196</u>

Restricted net assets	<u>\$ (1,603,753)</u>
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9. GOING CONCERN

The district is delinquent on its bonded and long-term debt and payroll taxes owed to the IRS. Bonded debt and other long-term debt owed to the United States Department of Agriculture (USDA) is in arrears by approximately \$967,370. The district is also in arrears on payroll taxes owed to the IRS by approximately \$291,381 and the IRS has filed a tax lien against the district for the past due amounts. Without some type of restructuring or relief on the aforementioned debt it is doubtful that the district could continue as a going concern. Management is actively pursuing the options of trying to restructure the debt or possibility selling the facility to alleviate the debt.

10. RETAINED EARNINGS DEFICIT

DEFICITS The following individual fund has a deficit in net assets at June 30, 2007:

<u>Fund</u>	<u>Deficit Amount</u>
Enterprise Fund	<u>\$ 1,469,405</u>

Management has been working with the United States Department of Agriculture (USDA) trying to restructure their debt in order to produce a cash flow that would provide for reduction of this deficit.

11. CONTINGENCY

Management has been negotiating the sale of the facility with private third party providers. If a sale were to transpire the district would be terminated and the nursing center would revert to private ownership. Also there is a pending lawsuit against the facility and at this time the amount of potential loss cannot be reasonably estimated. If the loss were to be substantial the facility would not have the cash flows to meet the award.

OTHER SUPPLEMENTAL SCHEDULES

Hospital Service District No. 1
of the Parish of Beauregard
Beauregard Parish Police Jury
DeRidder, Louisiana

Schedule 1

Schedule of Per Diem Paid to Board of Commissioners
For the Year Ended June 30, 2007

<u>Board Member</u>	<u>Amount</u>
Larry Carroll	\$ -
Charles Hudson	-
Gary Steward	-
Bill Edmonson	-
Eugene Cooper	-
Pinky Betts	-
	<hr/>
Total	\$ -

OTHER REPORTS

Schedule of Prior Year Audit Findings
Year Ended June 30, 2007

Findings – Financial Statement Audit

The district has not been audited since June 30, 2002. At that time the following audit findings existed.

Findings – Financial Statement Audit

Audit Finding No. 2002-1

Segregation of Duties

Finding:

The District does not have adequate segregation of duties. A system of internal control procedures contemplates a segregation of duties that no one individual handles a transaction from its inception to its completion. While we recognize the District may not be large enough to permit procedures, it is important that you be aware this condition.

Initial occurrence – Unknown

Corrective action taken – No

Audit Finding No. 2002-2

Sinking Fund Requirements

Finding:

The District did not make required payments into the Bond Reserve Fund nor the Hospital Depreciation and Contingencies Funds as required by the issuance of the 1978 Revenue Bonds.

Initial occurrence – Unknown

Corrective action taken – No

Audit Finding No. 2002-3

Late Audit Report

Finding:

The audit report for the fiscal year ended June 30, 2002 was filed after the six months due date December 31, 2002 as required by State law.

Initial occurrence – June 30, 2002

Corrective active taken – No

Schedule of Current Year Audit Findings and Management's Response
Year Ended June 30, 2007

Internal Control

Findings – Financial Statement Audit

Audit Finding No. 2007-1

Lack of Documentation of Invoice Approval

Finding:

Invoices that were examined contained no documentation that they had been approved for payment. Invoices should show some type of notation that they have been reviewed and approved for payment.

Recommendation:

I recommend that the face of the invoice be initialed or signed and dated by the Hospital Administrator as evidence that he has inspected the invoice and has approved it for payment.

Audit Finding No. 2007-2

Lack of Segregation of Duties

Finding:

The district does not have adequate segregation of duties. A good system of internal control has segregation of duties so that one individual does not handle a single transaction from receipt to completion.

The district is not large enough nor does it have the financial ability to hire personnel to achieve proper segregation of duties. While this has been noted it is important that the district be aware of this condition.

Recommendation:

The district being aware of this condition should continually monitor personnel in the finance department and segregate duties and responsibilities as much as possible with the limited staff.

Compliance and Other Matters

Findings – Financial Statement Audit

Audit Finding No. 2007-3

District Not in Compliance with Bond Resolution

Finding:

The district is not in compliance with their bond resolution and note agreement with the United State Department of Agriculture (USDA). Both bond and note principal and interest payments are several years in arrears in material amounts. The district does not have the required cash sinking fund and depreciation and contingency fund established. The reserve fund that is established is under funded and not in compliance with USDA funding requirements

Recommendation:

I recommend that the District continue to be in contact with and work with the USDA in order to come to some resolution that will bring the district into compliance with USDA agreements as to principal and interest payments and required cash funds that should be established to service the debt and maintain the utility system.

Schedule of Current Year Audit Findings and Management's Response
Year Ended June 30, 2007

Audit Finding No. 2007-4

Delinquent IRS payroll taxes

Finding:

The district is delinquent to the IRS for prior years payroll taxes. As of the last IRS notice dated October 19, 2007, the district owes the IRS \$291,381 in these taxes. Also, as of October 22, 2007 the IRS filed a federal tax lien against the district in the amount of \$262,323.

Recommendation:

I recommend that the district remain in contact with the IRS concerning these delinquent taxes and arrange some type of payment plan to pay the taxes and get the district current with the delinquent employment taxes.

Audit Finding No. 2007-5

District's Donations of Flowers and Gifts

Finding:

The district, which operates a nursing center consist of elderly residents. When these residents pass on the district sends flowers to their families. The district also provides a Christmas dinner for employees and their families as well as making other donations throughout the year. This is a violation of the Louisiana Constitution and has been upheld by the State Attorney Generals office.

Recommendation:

I recommend that the district come into compliance with the Louisiana Constitution by suspending the policy of sending flowers to resident's families when they pass on. Also, the district should not provide any meals or gifts to employees and their families. The district should not make any donations or gifts to other organizations during the year.

Audit Finding No. 2007-6

Noncompliance with Louisiana Audit Law

Finding:

The district is not in compliance with the Louisiana Audit Law (LRS 24:513), which requires political subdivisions to submit annual financial reports to the Office of the Louisiana Legislative Auditor no later than six months after their fiscal year end. The district has not complied with this law for the fiscal years of June 30, 2003, 2004, 2005, and 2006.

Recommendation:

I recommend that the district stay in contact with the Louisiana Legislative Auditor's office and follow their guidance in order to file the delinquent audits or comply with any other requirements as set forth by the legislative auditor's office.

**Hospital Service District # 1 of the Parish of
Beauregard, DBA Merryville Nursing Center
900 N. Bryan St * P.O. Box 820
Merryville, LA 70653
Phone: 337-825-6181
Fax: 337-825-2007**

December 26, 2007

The Honorable Steve J. Theriot, C.P.A.
Legislative Auditor, State of Louisiana
1600 North 3rd Street
Baton Rouge, La 70802

Dear Mr. Theriot,

Please find the responses to the December 2007 Financial Audit for the Hospital Service District No. 1 of the Parish of Beauregard, DBA Merryville Nursing Center.

Audit finding No. 2007-1

Lack of documentation of invoice Approval

Response: A system is in place where the Administrator initials and dates all invoices, prior to payment.

Audit finding No. 2007-2

Lack of segregation of duties

Response: Administration will continue to monitor finance personnel.

Audit finding No. 2007-3

District in none compliance with bond Resolution

Response: The district has retained counsel and passed resolutions for the sale of Merryville Nursing Center to satisfy debt.

Audit finding No. 2007-4

Delinquent Payroll Taxes

Response: The district has met with the IRS and an ongoing resolution is being worked out to satisfy the debt. All Payroll taxes have been current.

Audit finding No. 2007-5

District giving donations of flowers and gifts

Response: The district has suspended sending flowers or gifts, and has suspended all other meals, gifts, and donations of any kind to organizations, staff and/or families.

Audit finding No. 2007-6

Noncompliance with Louisiana Audit Law

Response: The district will comply with keeping current with the Louisiana Audit Law.

With kind Regards,

**Gary Mize,
Secretary for Hospital Service district No. 1 of the Parish of
Beauregard, Administrator of Merryville Nursing Center.**

This institution is an equal opportunity provider.

John A. Windham, CPA

A Professional Corporation

1620 North Pine Street
DeRidder, LA 70634
Tel: (337) 462-3211
Fax: (337) 462-0640

John A. Windham, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners
Hospital Service District No. 1
of the Parish of Beauregard
Merryville, Louisiana

I was engaged to audit the financial statements of the the business-type activities and the major fund of Hospital Service District No. 1 of the Parish of Beauregard, as of and for the year ended June 30, 2007, which collectively comprise Hospital Service District No. 1 of the Parish of Beauregard's, basic financial statements and have issued my report thereon dated December 21, 2007. I did not express an opinion on the business-type activities and the major enterprise fund because financial statements of the district have not been audited the last four fiscal years and I could not rely on the beginning balances to be correctly stated. Except as discussed in the preceding sentence, I conducted my 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 my audit, I considered Hospital Service District No. 1 of the Parish of Beauregard's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital Service District No. 1 of the Parish of Beauregard's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Hospital Service District No. 1 of the Parish of Beauregard's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

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 Hospital Service District No. 1 of the Parish of Beauregard'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 Hospital Service District No. 1 of the Parish of Beauregard's financial statements that is more than inconsequential will not be prevented or detected by Hospital Service District No. 1 of the Parish of Beauregard's internal control. I consider the deficiencies described in the accompanying schedule of current year audit findings and management's response to be significant deficiencies in internal control over financial reporting. Audit finding No. 2007-1 and 2007-2.

Board of Commissioners
Hospital Service District No. 1
Of the Parish of Beauregard
Merryville, Louisiana

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 Hospital Service District No. 1 of the Parish of Beauregard's internal control.

My 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, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hospital Service District No. 1 of the Parish of Beauregard's, financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of current year audit findings and management's response as audit findings No. 2007-3, 2007-4, 2007-5 and 2007-6.

Hospital Service District No. 1 of the Parish of Beauregard's response to the findings identified in my audit is described in the accompanying schedule of current year audit findings and management's response. I did not audit Hospital Service District No. 1 of the Parish of Beauregard's response and, accordingly, I express no opinion on it.

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

Jeffrey L. Windham, CPA

Merryville, Louisiana
December 21, 2007