

**HOSPITAL SERVICE DISTRICT #2
OF BEAUREGARD PARISH
DeRidder, Louisiana**

**Financial Statements and
Supplementary Information
Years Ended October 31, 2007 and 2006**

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 3-19-08

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BROUSSARD & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, L.L.C.

Founded in 1978

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Hospital Service District No. 2
of Beauregard Parish
DeRidder, Louisiana

We have audited the accompanying balance sheets of Hospital Service District No. 2 of Beauregard Parish as of October 31, 2007 and 2006, and the related statements of revenue and expenses, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital Service District No. 2 of Beauregard Parish as of October 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 4 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MOSS BLUFF OFFICE

695 Sam Houston Jones Parkway, Suite D
Lake Charles, Louisiana 70611
Ph: (337) 217-3370 Fax: (337) 439-6647

LAKE CHARLES OFFICE

One Lakeshore Drive, Suite 1900
Lake Charles, Louisiana 70629
Ph: (337) 439-6600 Fax: (337) 439-6647

SULPHUR OFFICE

704 First Avenue
Sulphur, Louisiana 70663
Ph: (337) 527-0010 Fax: (337) 527-0014

To the Board of Commissioners
Hospital Service District No. 2
of Beauregard Parish

In accordance with Government Auditing Standards, we have also issued a report dated February 22, 2008, on our consideration of Hospital Service District No. 2 of Beauregard Parish internal control over financial reporting and on our 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 our testing of internal controls 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.

Brassard & Company

Lake Charles, Louisiana
February 22, 2008

**HOSPITAL SERVICE DISTRICT #2
OF THE PARISH OF BEAUREGARD, STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF OCTOBER 31, 2007**

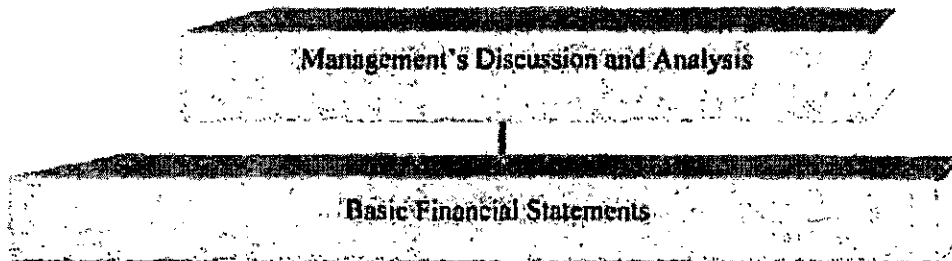
The Management's Discussion and Analysis of the Hospital Service District #2, of The Parish of Beauregard, State of Louisiana (the District) financial performance presents a narrative overview and analysis of the District's financial activities for the year ended October 31, 2007. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the additional information contained in the financial statements.

FINANCIAL HIGHLIGHTS

- ★ The District's assets exceeded its liabilities at the close of fiscal year 2007 by \$33,269,032 which represents a 3.0% increase from last fiscal year. Of this amount, \$20,661,664 (unrestricted net assets) may be used to meet the District's ongoing obligations to its users.
- ★ The District's net patient revenue decreased \$356,700 (or 1.0%) and the total operating expenses decreased by \$2,185,778 (or 6.4%).

OVERVIEW OF THE FINANCIAL STATEMENTS

The following graphic illustrates the minimum requirements for Special Purpose Governments Engaged in Business-Type Activities established by Governmental Accounting Standards Board Statement 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.



These financial statements consist of two sections - Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

**HOSPITAL SERVICE DISTRICT #2
OF THE PARISH OF BEAUREGARD, STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF OCTOBER 31, 2007**

Basic Financial Statements

The basic financial statements present information for the District as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Balance Sheet; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Balance Sheets (pages 7 - 8) presents the current and long term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statements of Revenues and Expenses (page 9) presents information showing how the District's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The Changes in Net Assets (page 10) presents information showing how the District's assets changed as a result of current year operations.

The Cash Flow Statements (pages 11 - 12) presents information showing how the District's cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by GASB 34.

FINANCIAL ANALYSIS OF THE ENTITY

	2007	2006	2005
Current and other assets	\$24,407,763	\$23,141,203	\$19,126,255
Capital assets	14,690,724	15,354,102	16,170,749
Total assets	39,098,489	38,495,305	35,297,004
Other liabilities	3,498,575	2,832,309	1,173,378
Long-term debt outstanding	2,330,882	3,359,016	5,029,280
Total liabilities	5,829,457	6,191,325	6,202,658
Net assets:			
Invested capital assets, net of debt	12,607,368	12,557,494	12,002,272
Restricted for debt service	-	-	1,295,000
Unrestricted	20,661,664	19,746,486	15,797,074
Total net assets	\$33,269,032	\$32,303,980	\$29,094,346

**HOSPITAL SERVICE DISTRICT #2
OF THE PARISH OF BEAUREGARD, STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF OCTOBER 31, 2007**

Restricted net assets represent those assets that are not available for spending as a result of bond agreements. The decrease in restricted net assets as of October 31, 2006 resulted from the removal of restrictions on certain assets associated with the Series 2000 Revenue Bond. The Series 2000 Revenue Bond was retired during the year ended October 31, 2006. Conversely, unrestricted net assets are those that do not have any limitations for which these amounts may be used.

The Change in Net assets of the District increased by \$965,052, or 3.0%, from October 31, 2006 to October 31, 2007.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues	\$37,595,838	\$37,956,977	\$37,048,322
Operating expenses	<u>37,794,062</u>	<u>35,608,284</u>	<u>35,828,091</u>
Operating income (loss)	<u>(198,224)</u>	<u>3,348,693</u>	<u>1,220,231</u>
Non-operating revenues (expenses)	<u>1,163,276</u>	<u>860,941</u>	<u>405,067</u>
Net increase (decrease) in net assets	<u>\$ 965,052</u>	<u>\$ 3,209,634</u>	<u>\$ 1,625,298</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of October 31, 2007, the District had \$14,690,724, net of accumulated depreciation, invested in a broad range of capital assets, including land, buildings, equipment, land improvements, and construction in progress. (See Table below). This amount represents a net decrease (including additions and deductions) of \$663,378 or 4.3%, from the previous year.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Land	\$ 1,229,191	\$ 1,229,191	\$ 1,259,191
Buildings	17,843,830	17,393,144	17,082,755
Equipment	10,352,980	11,383,544	11,338,342
Construction in Progress	38,187	64,291	495,805
Land Improvements	<u>429,164</u>	<u>429,164</u>	<u>434,164</u>
Less Accumulated Depreciation	<u>(15,202,628)</u>	<u>(15,145,232)</u>	<u>(14,439,508)</u>
Totals	<u>\$ 14,690,724</u>	<u>\$ 15,354,102</u>	<u>\$ 16,170,749</u>

**HOSPITAL SERVICE DISTRICT #2
OF THE PARISH OF BEAUREGARD, STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF OCTOBER 31, 2007**

Capital Assets (Continued)

This year's Major Capital addition included above was:

- Lab renovations \$ 428,000
- OB charting and monitoring system \$ 248,000

Additional information on the District's capital assets can be found in note 4 of this report.

Debt

The District had \$1,625,000 in bonds outstanding at year-end, compared to \$1,950,000 last year, a decrease of 16.7 %. A summary of this debt is shown in the table below.

	Outstanding Debt at Year-end		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenue Bonds	<u>\$ 1,625,000</u>	<u>\$ 1,950,000</u>	<u>\$ 2,948,953</u>
Totals	<u>\$ 1,625,000</u>	<u>\$ 1,950,000</u>	<u>\$ 2,948,953</u>

The District's Series 2002 and 2004 Revenue bonds are unrated.

Additional information on the District's long-term debt can be found in note 3 of this report.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Darrell Kingham, CPA, VP Finance, Hospital Service District #2 of the Parish of Beauregard, State of Louisiana.

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH

DeRidder, Louisiana

Balance Sheets

As of October 31,

	<u>2007</u>	<u>2006</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,571,865	\$ 1,396,859
Assets Whose Use Is Limited:		
Cash equivalents:		
By bond indenture	210,861	209,810
By board for funded depreciation	1,145,381	1,137,292
Certificates of deposit:		
By board for funded depreciation	9,515,688	5,267,758
Patient accounts receivable, net of estimated uncollectibles of \$49,421,218 for 2007 and \$42,663,470 for 2006	3,951,881	3,961,179
Inventories	939,092	1,145,029
Current portion of capital lease receivable	247,526	314,881
Interest receivable	60,801	70,172
Prepaid expenses	272,533	228,852
Estimated third party payor settlements - Medicare/Medicaid	742,203	813,781
Total Current Assets	<u>\$ 18,657,831</u>	<u>\$ 14,545,613</u>
Noncurrent Assets:		
Investments	5,330,638	5,207,350
Investments limited in use by board for funded depreciation	-	2,879,970
Property and equipment, net	14,690,724	15,354,102
Investments - LLC	207,528	70,988
Capital lease receivable, net of current portion	-	247,526
Other assets	211,768	189,756
Total Noncurrent Assets	<u>20,440,658</u>	<u>23,949,692</u>
TOTAL ASSETS	<u>\$ 39,098,489</u>	<u>\$ 38,495,305</u>

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

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Balance Sheets (Continued)
As of October 31,

	2007	2006
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current portion of long-term debt - to be paid from Assets Whose Use Is Limited	\$ 340,000	\$ 325,000
Accrued interest payable	5,675	6,721
Deferred revenue	3,196,592	2,772,701
Current portion of capital lease payable	601,015	703,134
Due to West Louisiana Health Services	296,308	52,887
Total Current Liabilities	4,439,590	3,860,443
Long-Term Debt:		
Capital lease obligation payable, net of current portion	104,867	705,882
Long-term debt, net of current portion	1,285,000	1,625,000
Total Long-Term Debt	1,389,867	2,330,882
Total Liabilities	5,829,457	6,191,325
Net Assets:		
Invested in capital assets, net of related debt	12,607,368	12,557,494
Unrestricted	20,661,664	19,746,486
Total Net Assets	33,269,032	32,303,980
TOTAL LIABILITIES AND NET ASSETS	\$ 39,098,489	\$ 38,495,305

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

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Statements of Revenues and Expenses
For the Years Ended October 31,

	<u>2007</u>	<u>2006</u>
NET PATIENT SERVICE REVENUE	\$ 37,062,896	\$ 37,419,596
OTHER REVENUE	<u>532,942</u>	<u>537,381</u>
TOTAL REVENUE	<u>37,595,838</u>	<u>37,956,977</u>
 EXPENSES		
Nursing expenses	3,838,580	3,471,640
Other professional service expenses	15,134,239	14,347,092
General service expenses	3,066,734	3,020,156
Fiscal and administrative service expenses	6,235,077	5,414,433
Depreciation	1,782,483	1,744,813
Provision for bad accounts	7,614,356	7,422,500
Interest expense	<u>122,593</u>	<u>187,650</u>
Total Expenses	<u>37,794,062</u>	<u>35,608,284</u>
INCOME FROM OPERATIONS	<u>(198,224)</u>	<u>2,348,693</u>
 NON-OPERATING REVENUE AND (EXPENSES)		
Interest income	795,766	557,064
Gain (loss) on disposal of plant and equipment	(107,774)	93,259
Gain (loss) on investment in Beauregard-Vernon MRI, LLC	400,129	354,384
Other	<u>75,155</u>	<u>(143,766)</u>
Total Non-Operating Revenue and (Expenses)	<u>1,163,276</u>	<u>860,941</u>
 EXCESS OF REVENUE OVER EXPENSES	 <u>\$ 965,052</u>	 <u>\$ 3,209,634</u>

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

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Changes in Net Assets
For The Years Ended October 31,

	2007	2006
NET ASSETS - BEGINNING OF YEAR	\$ 32,303,980	\$ 30,190,311
LESS - PRIOR PERIOD ADJUSTMENT	-	(1,095,965)
NET ASSETS - BEGINNING OF YEAR (as restated)	32,303,980	29,094,346
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	965,052	3,209,634
NET ASSETS, END OF YEAR	\$ 33,269,032	\$ 32,303,980

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Statements of Cash Flows
For The Years Ended October 31,

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from patients and users	\$ 38,100,605	\$ 40,728,168
Payments to suppliers	(22,654,652)	(21,473,610)
Payments to employees	(12,952,296)	(12,156,345)
Net Cash Provided (Used) by Operating Activities	2,493,657	7,098,213
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(1,235,715)	(1,110,504)
Proceeds from sale of capital assets	8,899	275,000
Principal paid on capital debt	(1,028,133)	(1,670,263)
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,254,949)	(2,505,767)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(16,230,805)	(16,517,841)
Proceeds from sale and maturity of investments	14,814,648	10,320,363
Interest received	805,137	458,423
Principal payments received for capital lease	314,881	298,394
Distributions received from Beauregard-Vernon MRI, LLC	263,589	316,098
Other	(22,012)	(73,139)
Net Cash Provided (Used) by Investing Activities	(54,562)	(5,197,702)
Net Increase (Decrease) in Cash and Cash Equivalents)	184,146	(605,256)
Cash and Cash Equivalents - Beginning of Year)	2,743,961	3,349,217
Cash and Cash Equivalents - End of Year	2,928,107	2,743,961
 Cash and cash equivalents shown on balance sheet as:		
Current assets: Cash and cash equivalents	1,571,865	1,396,859
Restricted assets: Cash and cash equivalents	1,356,242	1,347,102
	\$ 2,928,107	\$ 2,743,961

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

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Statements of Cash Flows (Continued)
For The Years Ended October 31,

	2007	2006
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (198,224)	\$ 2,348,693
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	1,782,483	1,744,813
Increase in allowance for uncollectible accounts	6,757,748	4,543,733
(Increase) decrease in account receivables	(6,748,450)	(2,577,905)
(Increase) decrease in other receivables	71,578	(608,049)
(Increase) decrease in other current assets	(43,681)	20,316
(Increase) decrease in inventory	205,937	(32,319)
Increase (decrease) in payables and other operating liabilities	666,266	1,658,931
Total Adjustments	2,691,881	4,749,520
Net Cash Provided by Operating Activities	\$ 2,493,657	\$ 7,098,213

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

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Notes to Financial Statements
October 31, 2007 and 2006

Note 1 - Organization and Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") in the United States of America as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

GASB No. 20 requires that governments' proprietary activities apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins. Governments are given the option whether or not to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The hospital has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

The Beauregard Memorial Hospital facilities are owned by the Hospital Service District #2 of Beauregard Parish. It is owned as a nonprofit corporation organized by the Beauregard Parish Police Jury under the provisions of Chapter 10 of Title 46 of the Louisiana revised statutes of 1950 and Act No. 506 of the Louisiana Legislature for the year 1976. The governing authority of the Hospital Service District is a Board of Commissioners appointed to office by the Beauregard Parish Police Jury.

On June 6, 1979, the Board of Commissioners of the Hospital Service District entered into an agreement with the Board of Trustees of Beauregard Memorial Hospital to manage and operate the hospital facilities. Under the terms of this agreement, which will expire in 99 years from the date executed if all the renewal period options are exercised, the Board of Trustees of Beauregard Memorial Hospital would collect all revenues and deposit to the account of the Hospital Service District and pay all necessary expenses incurred during the normal operations of the hospital. The Hospital Service District would then reimburse Beauregard Memorial Hospital for these expenses.

During the year ended October 31, 1984, the Board of Trustees of Beauregard Memorial Hospital elected to change their name to the Board of Trustees of West Louisiana Health Services, Inc. The nonprofit corporation's name was changed to West Louisiana Health Services, Inc.

Reporting Entity - As more fully described, the Hospital Service District #2 of Beauregard Parish is governed by a board appointed by the Beauregard Parish Police Jury. Therefore, the Hospital Service District is a component unit of the Beauregard Parish Police Jury.

The hospital has agreements with third-party payors that provide for payments to the hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Notes to Financial Statements (Continued)
October 31, 2007 and 2006

Note 1 -

Organization and Summary of Significant Accounting Policies (Continued)

Basis of Accounting - The District has implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*.

The District uses the accrual basis of accounting. The revenues are recognized when they are earned, and expenses are recognized when incurred.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* 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. The principal operating revenues of the District’s enterprise fund are charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospital and audits thereof by the Medicare fiscal intermediary. The hospital’s classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the hospital.

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per patient day. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the hospital and audits thereof by the Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 34 percent and 6 percent, respectively, of the Hospital’s net patient revenue for the year ended October 31, 2007. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Notes to Financial Statements (Continued)
October 31, 2007 and 2006

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

The hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Charity Care – The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Inventories - Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

Property, plant, and equipment - The property, plant, and equipment of the hospital is recorded at cost. Depreciation amounted to \$1,782,483 and \$1,744,813 for the years ended October 31, 2007 and 2006, respectively, and was calculated using the straight-line method over the estimated useful lives of the various assets shown below:

	<u>Method</u>	<u>Life</u>
Buildings	SL	5-40 Years
Equipment	SL	3-20 Years
Land Improvements	SL	5-15 Years

The costs of maintenance and repairs of property and equipment are charged to expense as incurred. Expenditures of \$5,000 or more for additions, improvements, and replacements are capitalized. The cost and related accumulated depreciation of property and equipment retired are removed from the accounts and any resulting gain or loss is recognized.

Capitalization of Interest – FAS-34 (Capitalization of Interest Costs) requires that interest expenditures incurred during construction of assets be capitalized. FAS-62 (Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants) concludes that constructed assets financed with the proceeds of tax-exempt debt should include capitalized interest only to the extent that interest cost exceeds interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowing. Net interest costs capitalized totaled \$0 and \$0 during the years ended October 31, 2007 and 2006, respectively.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include all checking accounts, savings accounts, money market funds, certificates of deposit, and certain investments in highly liquid debt instruments with original maturities of three months or less. Certificates of deposit with original maturities of more than three months are presented separately in the accompanying balance sheets. The demand deposits and certificates of deposits are stated at cost, which approximates market. Investments securities are reported at fair value. Investments securities are reported at fair value, except as disclosed in note 18.

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Notes to Financial Statements (Continued)
October 31, 2007 and 2006

Note 1 -

Organization and Summary of Significant Accounting Policies (Continued)

Investment Income

Interest, dividends, and gains and losses, both realized and unrealized, on investments in securities are included in nonoperating income when earned, except as disclosed in note 18.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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 claims and judgments. Commercial insurance coverage is purchased for claims arising from such matters. The Hospital is self-insured for employee health benefits as discussed in Note. 15.

Reclassifications

Certain changes may have been made to the presentation of the October 31, 2006 financial statements to conform to the current period presentation.

Note 2 -

Assets Whose Use is Limited

Under the terms of the bond indentures on outstanding Hospital Revenue Bonds of Hospital Service District #2 of the Parish of Beauregard, State of Louisiana, dated May 16, 2002 and September 21, 2004, all of the income, revenues, and receipts earned by the District from the operation of the new hospital facility must be deposited as the same are collected in the Hospital Operating Fund. Monies in the Hospital Operating Fund shall be first used for the payment of all reasonable and necessary expenses of operating and maintaining the hospital.

From the excess monies in the Hospital Operating Fund Hospital shall maintain and administer an Excess Revenue Bond Sinking Fund.

- A. On or before the 20th day of each month of a sum equal to one-twelfth (1/12th) of the principal due on the next principal payment date, and a sum equal to one-sixth (1/6th) of the interest due on the interest payment date, together with such additional proportionate sums as may be required to pay said principal and interest as the same respectively become due shall be deposited into the "Sinking Fund". These deposits shall be fully sufficient to pay promptly the principal and interest installments as they become due, and may only be used for that purpose.

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Notes to Financial Statements (Continued)
October 31, 2007 and 2006

Note 2 - Assets Whose Use is Limited (Continued)

Subject to the foregoing priorities, the balance of the excess funds on deposit in the Hospital Operating Fund may be used by the Borrower for the purpose of calling or paying bonds or for any other lawful corporate purpose.

Funded depreciation is so designated by the Board to replace and repair buildings and equipment.

Note 3 - Bonds Payable

On May 16, 2002, Refunding Bonds, Series 2002 of Hospital Service District #2 of the Parish of Beauregard, State of Louisiana in the amount of \$1,545,000 were issued in order to provide for the payment of outstanding principal and interest of the June 27, 1979 Hospital Revenue Bonds and the April 1, 1996 Certificates of Indebtedness. These Refunding Bonds bear interest at a rate of 4.25% and are to be retired over a 7 year period by making annual principal payments on April 1 of each year and semi-annual interest payments on April 1 and October 1 of each year. Annual principal and interest payments range from \$191,881 to \$394,625. The outstanding principal balance was \$375,000 at October 31, 2007 and \$550,000 at October 31, 2006.

On September 21, 2004, Refunding Bonds, Series 2004 of Hospital Service District #2 of the Parish of Beauregard, State of Louisiana in the amount of \$1,685,000 were issued in order to provide for the payment of outstanding principal and interest of the October 21, 2004 Hospital Revenue Bonds. These Refunding Bonds bear interest at a rate that ranges from 2.55% to 4.75% and are to be retired over a period of 9 year and 7 months by making annual principal payments on April 1 of each year and semi-annual interest payments on April 1 and October 1 of each year. Annual principal and interest payments range from \$178,341 to \$214,738. The outstanding principal balance was \$1,250,000 at October 31, 2007 and \$1,400,000 at October 31, 2006.

Scheduled principal and interest payments of bonds payable are as follows:

Year ending October 31,	Principal	Interest	Total
2008	\$ 340,000	\$ 62,395	\$ 402,395
2009	355,000	48,220	403,220
2010	170,000	37,440	207,440
2011	175,000	30,279	205,279
2012	185,000	22,536	207,536
2013-2016	400,000	18,994	418,994
Totals	<u>\$ 1,950,000</u>	<u>\$ 295,253</u>	<u>\$ 2,245,253</u>

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Notes to Financial Statements (Continued)

Note 3 - Bonds Payable (continued)

October 31, 2007 and 2006 The following is a summary of revenue bond payable transactions of the District for the year ended October 31, 2007:

Outstanding at November 1, 2006	\$ 1,950,000
Bond Proceeds	-0-
Bonds Retired	325,000
Outstanding at October 31, 2007	\$ 1,625,000

Note 4 - Capital Assets

Capital Asset activity for the year ended October 31, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital Assets, not being depreciated:				
Land	\$ 1,229,191	\$ -0-	\$ -0-	\$ 1,229,191
Construction in progress	64,291	610,299	(636,403)	38,187
Total capital assets, not being depreciated	1,293,482	610,299	(636,403)	1,267,378
Capital assets, being depreciated:				
Buildings	17,393,144	522,461	(71,775)	17,843,830
Land Improvements	429,164	- 0 -	- 0 -	429,164
Equipment	11,383,544	739,358	(1,769,921)	10,352,981
Total capital assets, being depreciated	29,205,852	1,261,819	(1,841,696)	28,625,975
Less accumulated depreciation	(15,145,232)	(1,782,483)	1,725,086	(15,202,629)
Total capital assets, being depreciated, net of depreciation	14,060,620	(520,664)	(116,610)	13,423,346
Total capital assets, net of depreciation	\$ 15,354,102	\$ 89,635	\$ (753,013)	\$ 14,690,724

Note 5- Leases

The Hospital has entered into three lease agreements as lessee for financing the acquisition of medical equipment and buildings improvements. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the lower of the present value of the future minimum lease payments or the fair value of the assets. The capitalized costs were \$1,871,384 for 2007 and \$1,871,384 for 2006, excluding equipment that was purchased with a capital lease arrangement between the Hospital and Beauregard-Vernon MRI, LLC. The equipment purchased with a capital lease agreement between the Hospital and Beauregard-Vernon MRI, LLC are recorded on the on the financial statements of Beauregard-Vernon MRI, LLC. The Hospital is depreciating the capital assets over their estimated productive lives. The accumulated depreciation on such equipment and building improvements under capital lease obligation was \$1,069,730 at October 31, 2007 and \$782,595 at October 31, 2006.

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Notes to Financial Statements (Continued)
October 31, 2007 and 2006

Note 5- Leases (Continued)

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at October 31, 2007:

Year Ending October 31,	
2008	\$ 616,401
2009	<u>105,808</u>
Total Minimum Lease Payments	722,208
Less: Amount Representing Interest	<u>16,327</u>
Present Value of Future Minimum Lease Payments	<u>\$ 705,881</u>

The Hospital entered a capital lease agreement between the Hospital and Beauregard-Vernon MRI, LLC. The Hospital subleases equipment to Beauregard-Vernon MRI, LLC. The lease is for a period of 60 months ending July 27, 2008. The initial direct cost of the equipment was \$1,476,307. The future minimum lease receivable was \$253,119 at October 31, 2007 and \$590,610 at October 31, 2006.

The Hospital leases part of the Hospital facilities under a 60 month operating lease to Beauregard-Vernon MRI, LLC. The lease term is effective until July 27, 2008. The initial cost of the property is \$347,424 and the accumulated depreciation is \$106,312 at October 31, 2007. The future minimum lease receivable was \$59,567 at October 31, 2007 and \$138,990 at October 31, 2006.

Note 6 - Due to/ from West Louisiana Health Services, Inc.

At October 31, 2007, the Hospital Service District had payables of \$296,307 between itself and West Louisiana Health Services, Inc. At October 31, 2006, the Hospital Service District had receivables of \$52,887 between itself and West Louisiana Health Services, Inc. These balances arise principally from the timing difference of recording accounts payable and accrued liabilities on the books of West Louisiana Health Services, Inc. and the actual payment by the Hospital Service District.

Note 7 - Compensated Absences

Employees of the hospital are entitled to compensated absences. Compensated absences totaling \$715,760 and \$697,537 for the years ended October 31, 2007 and 2006, respectively, are a vested benefit, and are accrued in the financial statements of the operator West Louisiana Health Services, Inc.

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Notes to Financial Statements (Continued)
October 31, 2007 and 2006

Note 8 -

Defined Contribution Plan

The Hospital sponsors the Beauregard Memorial Hospital 401(k) Retirement Plan to retirement benefits for all of its full-time and part-time employees who meet certain age and service requirements through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. The Hospital contributes 5% of eligible participants' compensation. The participant is required to contribute 3% of compensation. The Hospital's contributions for each employee (and plan earnings allocated to the employee's account) are fully vested after six years service. Hospital contributions for, and plan earnings forfeited by, employees who leave employment before six years of service are used to reduce the Hospital's current period contribution requirement. This plan is administered by the Hartford Life Insurance Company.

The Hospital's total payroll in fiscal year 2007 was \$12,958,558. The Hospital's contributions were calculated using the base salary amount of \$7,553,225. The Hospital's 5% contribution of covered employees, net of forfeitures, amounted to \$377,661. Eligible employees' contributions amounted to \$444,923.

The Hospital's total payroll in fiscal year 2006 was \$12,203,171. The Hospital's contributions were calculated using the base salary amount of \$6,985,918. The Hospital's 5% contribution of covered employees, net of forfeitures, amounted to \$349,296. Eligible employees' contributions amounted to \$438,224.

Note 9 -

Cash and Investments

Under Louisiana Revised Statutes 39:2955, the Hospital may deposit funds in demand deposit accounts, interest bearing demand deposit accounts, money market accounts, and time certificates of deposit with state banks, organized under Louisiana Law and National Banks having a principal offices in Louisiana. Additionally, Louisiana statutes allow the Hospital to invest in United States Treasury obligations, obligations issued or guaranteed by the United States government or federal agencies, and mutual or trust funds register with the Securities and Exchange Commission which have underlying investments consisting solely of and limited to the United States government or its agencies.

At October 31, 2007, the Hospital had cash and cash equivalents (book balances) totaling \$2,928,108 of which 1,133,794 is in interest-bearing demand deposits, 135,639 is in money market funds (unrated), and \$1,809,741 is in certificates of deposits.

At October 31, 2007, the Hospital had investments totaling \$14,846,326 of which 9,515,688 is in certificates of deposit, and 5,330,638 is in obligations of the Federal Home Loan Mortgage Corporation.

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Notes to Financial Statements (Continued)
October 31, 2007 and 2006

Note 9 -

Cash and Investments (continued)

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.

Custodial Credit Risk is the risk that in the event of bank failure, the Hospital's deposits may not be returned. At October 31, 2007, the Hospital had \$12,594,863 in demand deposits and certificates of deposit (bank balances before outstanding checks or deposits in transit). These deposits are secured from risk by \$500,000 of federal deposit insurance and \$12,094,863 of pledged securities held by the custodial bank in the name of the fiscal agent bank.

Even though the pledged securities are considered uncollateralized, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the district that the fiscal agent bank has failed to pay deposited funds upon demand.

Interest Rate Risk is the risk that changes in the in interest rate will adversely affect the fair value of the investment. At October 31, 2007, the Hospital had investments in obligations of the Federal Home Loan Mortgage Corporation totaling \$5,330,638. These investments have maturity dates that range from 28 to 30 years in future.

Note 11-

Construction in Progress

The Hospital has several construction projects in progress at October 31, 2007 and 2006, these projects in aggregate equal \$38,187 and \$64,291, respectively, at year end.

Note 12-

Board of Commissioners

The Board of Commissioners received no compensation for the fiscal years ending October 31, 2007 and 2006.

Note 13-

Hospital Insurance

The Hospital is a member of the Louisiana Patient's Compensation Fund for the purpose of malpractice insurance. All participating hospitals share proportionately in the expense of the fund.

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Notes to Financial Statements (Continued)
October 31, 2007 and 2006

Note 14- Concentrations of Credit Risk

The Hospital is located in DeRidder, Louisiana. The hospital grants credits without collateral to its patients; most of them are local residents and are insured under third party payor agreements. The mix of receivables from patients and third party payors was as follows:

	2007		2006	
Medicare	34	%	35	%
Medicaid	6		8	
Other	60		57	
	100	%	100	%

The mix of net patient revenues was as follows:

	2007		2006	
Medicare	24	%	23	%
Medicaid	6		3	
Other	58		61	
Uncompensated care reimbursement	12		13	
	100	%	100	%

Note 15- Contingencies

Certain claims, suits, and complaints arising in the ordinary course of operations are pending against the hospital. In the opinion of management, all such matters are of such kind or involve such amounts, as would not have a significant affect on the financial position or results of operations of the hospital if disposed of unfavorably.

The Hospital is self-insured for employee medical benefits. Under this arrangement, the employees contribute a portion of the cost with the hospital paying the difference to a third-party administrator. A portion of the monthly contribution is used to purchase a re-insurance contract that covers individual claims exceeding \$50,000. The accrued liability for incurred, but not reported health insurance benefit claims at October 31, 2007 was \$355,763 and is reported in the financial statements of the operator West Louisiana Health Services, Inc.

Note 16 - Allowance for Doubtful Accounts

Accounts receivable are stated at cost less an allowance for doubtful accounts. The allowance account consists of an estimate of uncollectible specifically identified accounts and a general reserve. Management's evaluation of the adequacy of the allowance is based on a continuing review of all accounts and includes a consideration of past user history, any adverse situation that might affect the user's ability to repay, and current economic conditions. Amounts charged-off that are subsequently recovered are recorded as income.

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Notes to Financial Statements (Continued)
October 31, 2007 and 2006

Note 18 - Investment - LLC

The Hospital owns 51% of Beauregard-Vernon MRI, L.L.C.. The LLC was formed to provide healthcare services, including quality imaging services to the residents of the community. Total assets of the LLC were \$707,849 and total liabilities were \$300,929 as of October 31, 2007. See Note 5 for related party information concerning the lease of building and equipment between the Hospital and the LLC. The investment is accounted for using the equity method.

Note 19 Prior period adjustments

Net patient revenue, deferred revenue, and unrestricted net assets for the year ended October 31, 2006, have been adjusted to correct errors made in prior years. The errors had no effect on net income for the year ended October 31, 2007. For the year ended October 31, 2006, net patient revenue was reduced \$1,676,736, deferred revenue was increased \$2,772,701, and unrestricted net assets were reduced \$2,772,701.

SUPPLEMENTARY INFORMATION



BROUSSARD & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, L.L.C.

Founded in 1978

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Commissioners
Hospital Service District #2
of Beauregard Parish
DeRidder, Louisiana

Our report on our audits of the basic financial statements of Hospital Service District #2 of Beauregard Parish as of October 31, 2007 and 2006, and for the years then ended appears on page 1. The audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information 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 audits 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.

Broussard & Company

Lake Charles, Louisiana
February 22, 2008

MOSS BLUFF OFFICE
695 Sam Houston Jones Parkway, Suite 10
Lake Charles, Louisiana 70611
Ph: (337) 217-3370 Fax: (337) 439-6647

LAKE CHARLES OFFICE
One Lakeshore Drive, Suite 1900
Lake Charles, Louisiana 70629
Ph: (337) 439-6600 Fax: (337) 439-6647

SULPHUR OFFICE
704 First Avenue
Sulphur, Louisiana 70663
Ph: (337) 527-0010 Fax: (337) 527-0014

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH

DeRidder, Louisiana

Schedule of Gross Patient Revenues

For the Years Ended October 31,

	<u>2007</u>	<u>2006</u>
INPATIENT		
Nursing revenue from daily patient services	\$ 9,695,159	\$ 9,631,363
Nursing revenue from labor, delivery and nursery	1,095,678	1,422,232
Nursing revenue from surgery	6,432,425	6,206,108
Nursing revenue from recovery	1,560,200	1,669,177
Emergency rooms	172,410	143,430
Anesthesia	1,600,459	1,446,201
Central supply	5,109,811	5,207,971
Laboratory	5,335,877	5,442,926
Blood bank	387,637	349,432
Electrodiagnosis	859,915	672,319
EEG	10,652	19,013
Radiology	2,798,862	3,125,770
Nuclear medicine	666,335	746,192
Pharmacy	10,546,052	10,592,511
IV	3,895,113	3,767,123
Physical therapy	565,191	446,695
Respiratory therapy	3,361,732	3,434,673
Ultrasound	274,659	277,779
Cath lab	1,668,829	644,909
Total Inpatient	<u>56,036,996</u>	<u>55,245,824</u>
OUTPATIENT		
Nursing revenue	2,505,888	2,996,801
Emergency rooms	12,959,358	14,417,869
Anesthesia	1,590,855	1,429,508
Central supply	3,987,228	3,498,002
Laboratory	5,634,491	5,073,994
Blood bank	81,615	66,900
Electrodiagnosis	691,136	535,327
EEG	30,249	20,001
Radiology	9,461,155	7,824,591
Nuclear medicine	1,341,100	1,601,224
Pharmacy	5,721,729	5,585,161
IV	1,028,661	913,897
Physical therapy	1,661,131	1,225,245
Respiratory therapy	344,590	285,754
Occupational Therapy	107,608	104,223
Home health care	1,040,383	1,054,942
Ultrasound	828,476	795,156
Cardiac rehab	169,534	157,640
Cath lab	716,132	1,227,411
Total Outpatient	<u>49,901,319</u>	<u>48,813,646</u>
TOTAL GROSS PATIENT SERVICE REVENUE	<u>\$ 105,938,315</u>	<u>\$ 104,059,470</u>

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Schedule of Other Revenues
For the Years Ended October 31,

OTHER REVENUES	<u>2007</u>	<u>2006</u>
Cafeteria	\$ 169,956	\$ 149,760
Telephone revenues	163	393.00
Medical records fees	12,918	11,731
Scrap sales	1,523	1,069
Vending machine	17,282	20,114
Clinics rental income	42,955	44,197
Pharmacy sales to employees	194,611	193,940
Miscellaneous	20,705	29,327
Wellness income	25	7,427
Sublease income	72,804	79,423
TOTAL OTHER REVENUES	<u><u>\$ 532,942</u></u>	<u><u>\$ 537,381</u></u>

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH

DeRidder, Louisiana

Schedules of Expenses

For the Years Ended October 31,

	<u>2007</u>	<u>2006</u>
NURSING EXPENSES		
Nursing services	\$ 3,403,075	\$ 3,134,344
Medical and surgical supplies	180,990	167,582
Other nursing expense	254,516	169,714
Total Nursing Expenses	<u>3,838,581</u>	<u>3,471,640</u>
OTHER PROFESSIONAL SERVICE EXPENSES		
Special care unit	571,798	605,913
Nursery	477,168	447,812
Labor and delivery	634,430	644,483
Surgery	2,086,228	1,757,890
Emergency	2,780,495	2,624,222
Anesthesia	654,352	647,037
Laboratory	1,001,332	973,437
Blood bank	200,846	175,315
Electrodiagnosis	120	8,473
EEG	7,330	5,550
Radiology	1,033,536	987,316
Nuclear medicine	217,832	215,029
Pharmacy	2,052,916	2,092,536
IV	125,172	151,320
Physical therapy	448,394	397,431
Respiratory therapy	528,576	468,380
Occupational Therapy	19,750	7,796
Medical records	576,085	551,699
Bio medical	298,269	243,161
Home health care	834,757	817,926
Cardiac Rehabilitation	65,639	69,251
Fitness management	53,294	56,366
Wellness Center	-	5,176
Cath Lab	465,922	393,573
Total Other Professional Service Expenses	<u>15,134,241</u>	<u>14,347,092</u>
GENERAL SERVICE EXPENSES		
Dietary	670,002	613,549
Engineering	1,234,145	1,337,918
Housekeeping	501,436	457,361
Laundry	119,662	112,261
Infection control	39,598	41,930
Patient chart utilization	115,889	106,423
Security	75,568	65,135
Patient representatives	54,519	57,670
Registration	255,917	227,908
Total General Service Expenses	<u>\$ 3,066,736</u>	<u>\$ 3,020,155</u>

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH

DeRidder, Louisiana

Schedules of Expenses (Continued)

For the Years Ended October 31,

	<u>2007</u>	<u>2006</u>
FISCAL AND ADMINISTRATIVE EXPENSES		
Accounting	\$ 213,264	\$ 195,945
Data processing	197,773	211,683
Communications	197,315	177,796
Administrative	1,718,297	1,495,737
Auxiliary	9,300	14,088
Public relations	223,167	153,172
Materials management	119,499	189,070
Personnel	2,998,715	2,456,441
Insurance	381,321	344,670
Quality improvement	176,427	175,831
Total Fiscal and Administrative Service Expenses	<u><u>\$ 6,235,078</u></u>	<u><u>\$ 5,414,433</u></u>



Founded in 1978

BROUSSARD & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, L.L.C.

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

Board of Commissioners
Hospital Service District No. 2 of
Beauregard Parish
DeRidder, Louisiana

We have audited the financial statements of Hospital Service District No. 2 of Beauregard Parish as of and for the year ended October 31, 2007, and have issued our report thereon dated February 22, 2008. 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 Hospital Service District No. 2 of Beauregard Parish's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hospital Service District No. 2 of Beauregard Parish's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hospital Service District No. 2 of Beauregard Parish's 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 Hospital Service District No. 2 of Beauregard Parish'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. 2 of Beauregard Parish's financial statements that is more than inconsequential will not be prevented or detected by Hospital Service District No. 2 of Beauregard Parish's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Hospital Service District No. 2 of Beauregard Parish's internal control.

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

MOSS BLUFF OFFICE
695 Sam Houston Jones Parkway, Suite D
Lake Charles, Louisiana 70611
Ph: (337) 217-3370 Fax: (337) 439-6647

LAKE CHARLES OFFICE
One Lakeshore Drive, Suite 1900
Lake Charles, Louisiana 70629
Ph: (337) 439-6600 Fax: (337) 439-6647

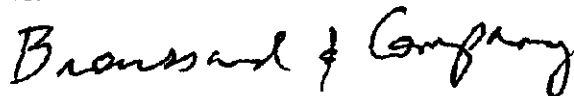
SULPHUR OFFICE
704 First Avenue
Sulphur, Louisiana 70663
Ph: (337) 527-0010 Fax: (337) 527-0014

Board of Commissioners
Hospital Service District No. 2 of
Beauregard Parish
DeRidder, Louisiana
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hospital Service District No. 2 of Beauregard Parish's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the audit committee, management, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Lake Charles, Louisiana
February 22, 2008

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Schedule of Findings and Questioned Costs
For the Year Ended October 31, 2007

We have audited the financial statements of Hospital Service District #2 of Beauregard Parish of and for the year ended October 31, 2007, and have issued our report thereon dated DRAFT. We conducted our audit in accordance with U. S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Our audit of the financial statements as of October 31, 2007, resulted in an unqualified opinion.

Section I. Summary of Auditor's Reports

Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Significant Deficiencies Yes No Material Weaknesses Yes No

Compliance

Compliance Material to Financial Statements Yes No

HOSPITAL SERVICE DISTRICT #2 OF BEAUREGARD PARISH
DeRidder, Louisiana
Schedule of Prior Year Findings
For the Year Ended October 31, 2006

Section II Findings

None reported.