HOSPITAL SERVICE DISTRICT NO. 1 OF
EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER

Zachary, Louisiana

Audited Financial Statements

June 30, 2014 and 2013

LAPORTE
CPAs & BUSINESS ADVISORS

Contents

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Independent Auditor's Report

To the Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana,
d/b/a Lane Regional Medical Center
Zachary, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Hospital), a component unit of the City-Parish of Baton Rouge, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital, a component unit of the City-Parish of Baton Rouge, as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As explained in Note 1 to the financial statements, the Hospital adopted Governmental Accounting Standards Board (GASB) Statements No. 61, *The Financial Reporting Entity: Omnibus and Amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which are applied retroactively by restating the beginning net position of the Hospital. Our opinion is not modified with respect of this matter.

Other Matters

Required Supplementary Information
The Hospital has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's basic financial statements. The Schedule of Board of Commissioners and Salaries is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Board of Commissioners and Salaries is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Board of Commissioners and Salaries is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2014, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

LaPorte

A Professional Accounting Corporation

Metairie, LA
October 20, 2014

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash and Cash Equivalents	$ 201,673	$ 431,404
Short-Term Investments	25,921,765	23,840,278
Assets Limited as to Use, Current Portion	324,920	262,190
Patient Accounts Receivable, Net of Allowances for Doubtful Accounts of $7,919,828 in 2014, and $8,935,014 in 2013	15,364,518	11,085,880
Inventory	1,649,621	1,771,042
Prepaid Expenses	1,612,206	1,826,438
Other Current Assets	1,136,074	-
Total Current Assets	46,210,777	39,217,232
Noncurrent Assets		
Assets Limited as to Use:		
Held by Trustee for Debt Service	6,025,005	262,190
Less: Portion Required for Current Liabilities	(324,920)	(262,190)
	5,700,085	-
Capital Assets, Net	52,801,589	48,420,168
Deferred Outflow - Derivative Instrument	-	332,681
Other Assets	1,270,057	2,826,547
Total Assets	$ 105,982,508	$ 90,796,628
Liabilities and Net Position		
Current Liabilities		
Current Maturities of Long-Term Debt	$ 580,000	$ 855,636
Accounts Payable	4,147,156	2,416,816
Accrued Payroll and Other Expenses	4,589,075	4,089,701
Estimated Third-Party Payor Settlements	1,216,098	1,571,785
Total Current Liabilities	10,532,329	8,933,938
Derivative Instrument-Swap	-	332,681
Long-Term Debt, Less Current Maturities	21,910,000	11,513,866
Tot Total Liabilities	32,442,329	20,780,485
Net Position		
Net Investment in Capital Assets	30,311,589	36,050,666
Restricted	659,253	470,578
Unrestricted	42,569,337	33,494,899
Total Net Position	73,540,179	70,016,143
Total Liabilities and Net Position	$ 105,982,508	$ 90,796,628

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

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013

	2014	2013
Operating Revenues		
Net Patient Service Revenue, Net of Provision for Bad Debts of $17,438,737 in 2014, and $18,112,278 in 2013	$ 70,967,472	$ 69,514,055
Other Operating Revenue, Net of Expenses	7,322,739	4,358,897
Total Operating Revenues	78,290,211	73,872,952
Operating Expenses		
Salaries	32,421,841	32,372,759
Supplies	15,429,616	14,170,802
Fringe Benefits	6,137,407	4,970,071
Contracted Services	7,018,227	5,473,423
Depreciation and Amortization	5,119,564	5,529,052
Professional Fees	3,426,692	2,795,980
Repairs and Maintenance	2,439,914	2,491,719
Other	1,529,731	1,790,929
Insurance	1,299,323	1,151,433
Utilities	1,303,481	1,139,151
Rents and Leases	607,268	516,256
Total Operating Expenses	76,733,064	72,401,575
Operating Income	1,557,147	1,471,377
Non-Operating Revenue (Expenses)		
Investment Income	2,247,706	(118,285)
Interest Expense	(1,007,972)	(372,357)
Other Non-Operating Expense	(124,458)	-
Other Non-Operating Revenue	851,613	805,315
Net Non-Operating Revenue	1,966,889	314,673
Change in Net Position	3,524,036	1,786,050
Net Position, Beginning of Year	70,016,143	68,230,093
Net Position, End of Year	$ 73,540,179	$ 70,016,143

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

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Receipts from and on Behalf of Patients	$ 75,034,330	$ 72,050,315
Payments to Suppliers and Contractors	(31,423,832)	(31,909,771)
Payments to Employees	(37,879,954)	(36,578,493)
Net Cash Provided by Operating Activities	5,730,544	3,562,051
Cash Flows from Non-Capital Financing Activities		
Other Non-Operating Revenues	1,009,931	654,502
Net Cash Provided by Non-Capital Financing Activities	1,009,931	654,502
Cash Flows from Capital and Related Financing Activities		
Principal Paid on Capital Leases	-	(4,737,410)
Funding of Assets Held by Trustee for Debt Service	(5,762,815)	-
Principal Paid on Long-Term Debt	(12,804,502)	(855,638)
Interest Paid on Long-Term Debt	(828,052)	(372,357)
Proceeds from Long-Term Debt	22,925,000	-
Payment of Bond Issuance Costs	(124,458)	-
Proceeds from Sale of Capital Assets	-	502,734
Purchase of Capital Assets	(9,500,985)	(5,691,177)
Net Cash Used in Capital and Related Financing Activities	(6,095,812)	(11,153,848)
Cash Flows from Investing Activities		
Interest and Dividends on Investments	30,760	77,885
Capital Invested into Joint Ventures	(1,040,613)	(375,000)
Purchase of Investments	-	(8,017,545)
Proceeds from Sale of Investments	135,459	1,344,365
Net Cash Used in Investing Activities	(874,394)	(6,970,295)
Decrease in Cash and Cash Equivalents	(229,731)	(13,907,590)
Cash and Cash Equivalents, Beginning of Year	431,404	14,338,994
Cash and Cash Equivalents, End of Year	$ 201,673	$ 431,404

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

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities		
Operating Income	$ 1,557,147	$ 1,471,377
Adjustments to Reconcile Operating Income to Net		
Cash Provided by Operating Activities:		
Depreciation and Amortization	5,119,564	5,529,052
Write-off of Financing Costs at Net	-	160,762
Gain on Disposal of Property and Equipment	-	(10,687)
Provision for Bad Debts	18,330,221	19,214,957
Changes in:		
Patient Accounts Receivable	(22,608,859)	(21,661,924)
Inventory, Prepaids, and Other Current Assets	(800,421)	(937,974)
Other Assets	2,438,797	(1,332,742)
Accounts Payable	1,730,340	(259,437)
Accrued Payroll Expenses	319,445	764,338
Estimated Third-Party Payor Settlements	(355,687)	624,329
Net Cash Provided by Operating Activities	$ 5,730,544	$ 3,562,051
Noncash Investing Activities:		
Increase (Decrease) in Fair Value of Investments	$ 2,216,946	$ (196,170)
Equity in Net Income (Loss) of Associated Companies	(158,318)	(181,933)
	$ 2,058,628	$ (378,103)

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

Note 1. Nature of Business and Significant Accounting Policies

Nature of Business

Reporting Entity
Lane Regional Medical Center (the Hospital) is organized as Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana (the District) and is exempt from federal and state income taxes. The Hospital, which was created by the Metropolitan Council of the City of Baton Rouge and the Parish of East Baton Rouge (the City-Parish) on June 12, 1957, under the provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950, operates an acute care facility and physician practices and owns certain medical office buildings, providing inpatient, outpatient, and emergency care services for residents of southern Louisiana and Mississippi. The Hospital is a component unit of East Baton Rouge Parish, Louisiana for financial reporting purposes and is included in the basic financial statements of East Baton Rouge Parish together with its component units, which are described below. The component units discussed below are included because the nature and significance of their relationship to the Hospital are such that exclusion would cause the reporting entity's financial statements to be incomplete under criteria set forth by the Governmental Accounting Standards Board (GASB).

Blended Component Units
The following component units are legally separate organizations which the Hospital has determined should be presented as blended component units. The Hospital appoints the voting majority of the component units' Boards of Directors, and each has a specific benefit to the Hospital. Accordingly, these organizations are blended component units of the Hospital.

Lane RMC Service Corporation (the Corporation) is a not-for-profit entity established to operate exclusively for the support and benefit of the Hospital, to carry out the goals, objectives, and purposes of the Hospital, to develop and facilitate various health services activities, including joint venture activities, for the benefit of the Hospital, as expressly authorized by Louisiana statutes and regulations, and to engage in any lawful act or activity for which a corporation may be organized under Louisiana Non-Profit Corporation Law.

Lane RMC Foundation (the Foundation) was formed to, among other things, sustain the healing work of the physicians and staff of Lane Regional Medical Center. The Board of the Foundation is self-perpetuating and consists primarily of citizens of East Baton Rouge Parish. Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds are to be, or have been, contributed to the Hospital. The Foundation has applied for tax exempt status and is currently awaiting the results of that application.

The Hospital, the Corporation, and the Foundation are collectively referred to as the Organization. There are no other organizations or agencies whose financial statements should be included and presented with these financial statements.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Nature of Business (Continued)

Joint Ventures

The Hospital is a member of and holds an equity interest in Lane RMC Fastlane, L.L.C. (FASTLane). FASTLane is an after hours walk-in clinic servicing the Zachary area. The facility is 3,500 square feet and features eight exam rooms, and on-site x-ray, lab, and drug screening services. FASTLane is staffed by licensed physicians. As of June 30, 2014 and 2013, the Hospital owned 90.10% and 86.947%, respectively, of the joint venture. The balance of its equity interest at June 30, 2014 and 2013, totaled $529,432 and $387,750, respectively, and is included within other assets on the statements of net position. For the years ended June 30, 2014 and 2013, the Hospital recognized a loss in the amount of $158,318 and $181,933, respectively. This loss is included within other non-operating revenue on the statements of revenues, expenses and changes in net position. The Hospital made equity contributions of $300,000 and $375,000, during the years ended June 30, 2014 and 2013, respectively.

On October 28, 2011, FASTLane entered into a $250,000 promissory note with a bank. The promissory note matures on October 28, 2014. The Hospital is a guarantor of 66.23% of all required payments as long as the note is outstanding. The balance on the note that remains outstanding at June 30, 2014, totaled approximately $28,000. FASTLane has been current on its payment of this debt. The financial statements of the Hospital do not reflect a dollar commitment within its statements of net position relative to this guaranty.

The Hospital holds an equity ownership interest in a joint venture with PCC of Zachary, LLC (the Company) which is a radiation oncology center that began operations in March 2014, serving residents of the Zachary area. As of June 30, 2014 and 2013, the Hospital owned 30% and 0%, respectively. During the year ended June 30, 2014, the Hospital made equity contributions of $740,613 and recognized income of $-0-. The equity interest of $740,613 is included within other assets on the statements of net position. The Company leases its operational space from the Hospital at an annual rental of approximately $60,000, which is included within other non-operating revenue.

Significant Accounting Policies:

Accrual Basis of Accounting

The accrual basis of accounting is used by the Organization. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when the liability has been incurred. Under this basis of accounting, all assets and liabilities associated with the operation of the Organization are included in the statements of net position.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Significant Accounting Policies (Continued)

Accounting Standards
These financial statements have been prepared in accordance with the GASB's codification (GASB Cod). The financial statements of the component units are also prepared in accordance with the GASB codification, as they are established for the direct benefit of the Hospital.

Accounting Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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.

Cash and cash equivalents: Cash and cash equivalents include all checking and depository accounts, and certain investments in highly liquid debt instruments with original maturities of three months or less. As of June 30, 2014 and 2013, the Organization's cash and cash equivalents were entirely insured or collateralized with securities held by its agent in the Organization's name.

Patient Accounts Receivable
Patient accounts receivable are reported at net realizable value, after deduction of allowances for estimated uncollectible accounts. The allowance for uncollectible accounts is based on historical losses and an analysis of currently outstanding amounts. This account is generally increased by charges to a provision for uncollectible accounts, and decreased by write-offs of accounts determined by management to be uncollectible.

Inventories
Inventories, consisting primarily of medical supplies and drugs, are stated at the lower of cost (first-in, first-out method) or market.

Investments and Investment Income
Investments in debt and equity securities are reported at fair value. Short-term investments consist primarily of equity, fixed income securities, fixed income funds, and mutual funds. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating income when earned.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Investments Held by Trustees

The Hospital has investments held by a trustee under a bond indenture agreement. These investments are held for future debt service.

Prepaid Expenses and Deferred Charges

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis. Deferred financing costs are amortized over the term of the related debt on the interest method.

Capital Assets

The Hospital's capital assets are reported at historical cost. Donated property is recorded at its estimated fair value on the date of receipt, which is then treated as cost. Additions, renewals, and betterments that extend the lives of assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Capitalized interest costs allocated to buildings and construction in progress was $-0-, for the years ended June 30, 2014 and 2013.

Depreciation has been provided using the straight-line method over the estimated useful lives of the related assets, which range from 2 to 40 years.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gains or losses are recognized in the Hospital's operations.

Compensated Absences

Hospital policy is to compensate employees for absences due to earned vacation. Accumulated vacation is accrued at the balance sheet date because it is payable upon termination of employment.

Net Position

Net position consists of net investment in capital assets (property and equipment; restricted net position; and unrestricted net position. Net investment in capital assets consists of capital assets net of accumulated depreciation and the outstanding balance of any related debt that is attributable to the acquisition of the capital assets. Restricted net position includes assets that are externally restricted by creditors, grantors, contributors (including those assets with the Foundation), or laws and regulations, or those restricted by constitutional provisions and enabling legislation. Unrestricted net position consists of all other assets.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Operating Revenues and Expenses

The Hospital's statements of revenues, expenses and changes in net position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services - the Hospital's principal activity. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs. Joint venture equity transactions, rental income, and interest and investment income are considered as non-operating revenues.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates-per-discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. See Note 10.

Charity Care

The Hospital provides medical care to patients who meet certain criteria established under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are recorded to gross patient service revenue and written off through contractual allowances. As such, these charges are not reported as net patient service revenue on the statements of revenues, expenses and changes in net position. Charity care charges forgone for the years ended June 30, 2014 and 2013, were $1,934,977 and $1,102,678, respectively.

Derivatives and Financial Instruments

The Hospital used an interest rate basis swap agreement to manage interest costs and the risk associated with changing interest rates. While the Hospital's primary objective for the use of this instrument was to manage cash flow requirements, the change in fair value of a hedging derivative instrument was reported in the statements of net position as deferred outflows (accumulated decrease in fair value) in accordance with the GASB No. 53, *Accounting and Financial Reporting of Derivative Instruments*.

The fair value of the interest rate basis swap agreement represents the estimated amount the Hospital would pay to terminate this agreement at the reporting date, taking into account current interest rates and credit worthiness of the counterparty and the Hospital. During the year ended June 30, 2014, the interest rate basis swap agreement was terminated. See Notes 4 and 5.

Note 2. Deposits and Investments

The Hospital's investments generally are reported at fair value, as discussed in Note 1. At June 30, 2014 and 2013, the Hospital had the following deposits and investments, all of which were held in the Hospital's name by a custodial bank or trust that is an agent of the Hospital.

	2014	2013
Cash and Cash Equivalents	**$ 201,673**	$ 431,404
Short-Term Investments		
Equity		
Common Stock	**11,439,508**	9,825,005
Equity Funds	**582,540**	597,270
Exchange Traded Funds	**1,357,546**	945,151
Fixed Income Securities		
Government	**5,406,053**	5,910,146
Corporate	**4,960,556**	3,060,991
Foreign	**261,038**	250,153
Fixed Income Funds		
Bond Funds	**806,679**	250,125
Index Funds	**554,898**	1,076,081
Mutual Funds	**552,947**	1,925,356
Total Short-Term Investments	**25,921,765**	23,840,278
Investments Held by Trustee for Debt Service	**6,025,005**	262,190
Total	**$ 32,148,443**	$ 24,533,872

Louisiana statutes require that all of the Hospital's deposits be protected by insurance or collateral. The Hospital's bylaws require that all bank balances be insured or collateralized by U.S. Government securities held by the pledging financial institution's trust department in the name of the Hospital.

Note 2. Deposits and Investments (Continued)

Under Louisiana Revised Statutes 39:2957, 46:1073.1, and 11:263, the Hospital must follow the prudent-man rule to act with the care, skill, prudence, and diligence under the circumstances prevailing that a prudent institutional investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims for investing the Hospital's funds. The Hospital may not invest more than 55% of the total portfolio in equities unless not more than 65% of the total portfolio is invested in equities and at least 10% of the total equity portfolio is invested in one or more index funds which seek to replicate the performance of the chosen index or indices.

Short-term investments consisted of 52% equities, 46% fixed income, and 2% mutual funds at June 30, 2014. Short-term investments consisted of 48% equities, 44% fixed income, and 8% mutual funds at June 30, 2013.

Investments held by trustee for debt service as of June 30, 2014 and 2013, consisted of cash and equivalents.

Credit risk: All fixed income securities and fixed income funds with ratings are rated between AAA and Baa2 by Moody's. Credit ratings were not available for five investments in the investment portfolio.

Concentration of credit risk: The Hospital limits the amount it may invest in any one issuer to no more than 5% of the market value of the investment portfolio with the following exceptions: holdings of direct obligations issued or guaranteed by the United States Government or its agencies. There were no issuers comprising 5% or more of the Hospital's investments at June 30, 2014 or 2013.

Interest rate risk: In accordance with its investment policy, the Hospital manages its exposure to decline in fair values by limiting the weighted average maturity of the fixed income portion of its investment portfolio to within 20% of its stated index's weighted average portfolio. As a means to limit its exposure to decline in fair values arising from rising interest rates, the Hospital's investment policy limits the mutual funds section of its investment portfolio to maturities of less than 397 days.

Interest income totaled $30,760 and $77,885, while investment gains and losses, net, on the investment portfolio totaled $2,216,946 and ($196,170), for the years ended June 30, 2014 and 2013, respectively. Fluctuation in the investment gains and losses is related to market valuations throughout the course of the fiscal year.

Note 3. Capital Assets

Capital asset additions, retirements and transfers, and balances for the year ended June 30, 2014, were as follows:

	Balance June 30, 2013	Additions	Retirements and Transfers	Balance June 30, 2014
Capital Assets				
Land and Land Improvements	$ 4,538,133	$ 121,889	$ -	$ 4,660,022
Construction in Progress	2,129,635	208,451	(1,002,984)	1,335,102
Buildings	39,142,726	3,608,889	-	42,751,615
Fixed Equipment	5,825,358	5,962	-	5,831,320
Movable and Other Equipment	35,259,934	6,211,704	(379,775)	41,091,863
Physicians' Office Building and Equipment	17,008,300	347,074	-	17,355,374
Total Capital Assets	103,904,086	10,503,969	(1,382,759)	113,025,296
Less: Accumulated Depreciation for:				
Land Improvements	315,538	42,464	-	358,002
Buildings	18,657,424	1,387,259	-	20,044,683
Fixed Equipment	4,722,247	301,051	-	5,023,298
Movable and Other Equipment	28,838,540	2,851,868	(379,775)	31,310,633
Physicians' Office Building and Equipment	2,950,169	536,922	-	3,487,091
Total Accumulated Depreciation	55,483,918	5,119,564	(379,775)	60,223,707
Total Capital Assets, Net	$ 48,420,168	$ 5,384,405	$ (1,002,984)	$ 52,801,589

Capital asset additions, retirements and transfers, and balances for the year ended June 30, 2013, were as follows:

	Balance June 30, 2012	Additions	Retirements and Transfers	Balance June 30, 2013
Capital Assets				
Land and Land Improvements	$ 4,369,295	$ -	$ 168,838	$ 4,538,133
Construction in Progress	549,794	2,995,538	(1,415,697)	2,129,635
Buildings	38,267,404	293,342	581,980	39,142,726
Fixed Equipment	5,916,426	9,425	(100,493)	5,825,358
Movable and Other Equipment	33,140,018	2,392,872	(272,956)	35,259,934
Physicians' Office Building and Equipment	17,008,300	-	-	17,008,300
Total Capital Assets	99,251,237	5,691,177	(1,038,328)	103,904,086
Less: Accumulated Depreciation for:				
Land Improvements	286,358	29,180	-	315,538
Buildings	17,366,116	1,291,308	-	18,657,424
Fixed Equipment	4,677,568	44,679	-	4,722,247
Movable and Other Equipment	25,897,691	3,487,130	(546,281)	28,838,540
Physicians' Office Building and Equipment	2,601,934	348,235	-	2,950,169
Total Accumulated Depreciation	50,829,667	5,200,532	(546,281)	55,483,918
Total Capital Assets, Net	$ 48,421,570	$ 490,645	$ (492,047)	$ 48,420,168

Note 4. Long-Term Debt

A schedule of changes in the Hospital's long-term debt for 2014 and 2013, follows:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Amount Due Within One Year
Bonds Payable					
Series 2007	$ 9,548,613	$ -	$ 9,548,613	$ -	$ -
Series 2010	2,820,889	-	2,820,889	-	-
Series 2013A	-	12,155,000	435,000	11,720,000	580,000
Series 2013B	-	10,770,000	-	10,770,000	-
Total Long-Term Debt	$ 12,369,502	$ 22,925,000	$ 12,804,502	$ 22,490,000	$ 580,000

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amount Due Within One Year
Bonds Payable					
Series 2007	$ 10,243,057	$ -	$ 694,444	$ 9,548,613	$ 694,444
Series 2010	2,982,083	-	161,194	2,820,889	161,192
Total Long-Term Debt	$ 13,225,140	$ -	$ 855,638	$ 12,369,502	$ 855,636

The terms and due dates of the Hospital's long-term debt at June 30, 2014 and 2013, follows:

- Hospital Revenue and Refunding Bonds (Series 2007), variable interest rates on the Bond established weekly in accordance with the Seventh Supplemental and Amendatory Trust Indenture, Article I, Section 1.2, due in quarterly installments through January 1, 2027, secured by operating revenues and property of the Hospital as defined in the trust indenture. On July 26, 2013, these bonds were refinanced and on July 16, 2013, the corresponding swap agreement was terminated. See additional information regarding the Hospital's interest rate basis swap agreement at Note 5.

- Hospital Revenue and Refunding Bonds (Series 2010), variable interest rates on the Bond established weekly in accordance with the Sixth Supplemental and Amendatory Trust Indenture, Article I, Section 1.1, due in quarterly installments through October 1, 2030, secured by operating revenues and property of the Hospital as defined in the trust indenture. On July 26, 2013, these bonds were refinanced.

- Hospital Revenue and Refunding Bonds (Series 2013A), with an original principal of $12,155,000, a fixed interest rate of 3.2%, principal and interest payable quarterly effective October 1, 2013 through maturity of July 1, 2033, secured by operating revenues and property of the Hospital as defined in the trust indenture. These bonds were issued for the purpose of refunding the Series 2007 and Series 2010 bonds mentioned above.

Note 4. Long-Term Debt (Continued)

- Hospital Revenue Bonds (Series 2013B), with an original principal of $10,770,000, a fixed interest rate of 3.2% payable quarterly effective October 1, 2013, principal payable quarterly effective October 1, 2015 through maturity on July 1, 2033, secured by operating revenues and property of the Hospital as defined in the trust indenture. The bonds were issued for the purpose of financing the costs of acquisition and construction of capital improvements and equipment of the Hospital and certain other healthcare facilities of the District, including, but not limited to, the expansion, renovation, improvement, and replacement of equipment in the Radiology Department and Cardiac Catheterization Laboratory of the Hospital.

With the bond agreements, the Hospital has agreed to comply with various covenants. The covenants consist primarily of reporting and audit requirements, insurance coverage, restrictions on additional debt, maintenance of various deposit accounts, and other administrative requirements. The Hospital was in compliance with these covenants for the years ended June 30, 2014 and 2013.

The scheduled principal and interest repayments on long-term debt are as follows for the year ended June 30, 2014:

	Long-Term Debt	
	Principal	**Interest**
2015	$ 580,000	$ 712,720
2016	1,000,000	690,800
2017	1,140,000	655,440
2018	1,140,000	618,960
2019	1,170,000	582,240
2020-2024	5,945,000	2,344,840
2025-2029	6,215,000	1,371,080
Thereafter	5,300,000	378,080
Total	$ 22,490,000	$ 7,354,160

Note 5. Derivative Instruments

On November 25, 2009, the Hospital entered into a seventeen year, $5,989,584 notional amount basis swap agreement, effective December 1, 2009. The agreement converts the variable interest rate, established weekly in accordance with the Third Supplemental and Amendatory Trust Indenture, Article I, Section 1.1, to a fixed rate of 3.82%.

In conjunction with the bond refinance mentioned in Note 4, the Hospital, on July 19, 2013, terminated the swap agreement through a settlement payment of $320,000.

Note 5. Derivative Instruments (Continued)

The Hospital's interest expense included a charge of approximately $-0- and $133,802, for the years ended June 30, 2014 and 2013, respectively, related to the swap agreement. At June 30, 2014 and 2013, this arrangement had a carrying value which approximates its fair value liability of approximately $-0- and $333,000, respectively, which is recorded as derivative instrument-swap on the statements of net position.

At June 30, 2014, the Hospital had no derivative instruments outstanding.

At June 30, 2013, the Hospital had the following derivative instruments outstanding:

Type	Objective	Notional Amount June 30, 2013	Effective Date	Maturity Date	Terms	Fair Value
Pay-fixed interest rate swap	Hedge of changes in cash flows on the Series 2007 Bonds	$ 4,774,306	12/1/2009	1/1/2027	Pay 3.82%, receive SIFMA + .95% floating spread	$ (332,681)

Credit Risk: The Hospital should enter into interest rate transactions only with counterparties qualified under the Hospital's Interest Rate Derivative Policy. To qualify as a counterparty under the policy, at the time of entry into a transaction, the selected swap providers should be rated at least AA-/Aa3/AA by at least one of the three nationally recognized credit rating agencies (Standard & Poor's, Moody's, and Fitch Ratings, respectively) and should have minimum capitalization of $50 million.

At June 30, 2013, the derivative instrument was held with one counterparty which has a credit rating of A+ as issued by Fitch Ratings, A as issued by Standard & Poor's, and A2 as issued by Moody's Investor Service.

Basis Risk: The Hospital is exposed to basis risk on its pay-fixed interest rate swap that are hedging the bonds, as the variable-rate payments received by the Hospital on these derivative instruments are based on a rate other than the interest rate the Hospital pays on the bonds.

Termination Risk: The Hospital or its counterparty may terminate a derivative instrument if the other party fails to perform under the terms of the contract. If at the time of termination, a derivative instrument is in a liability position, the Hospital would be liable to the counterparty for a payment equal to the liability.

Note 6. Capital Leases

The Hospital is the lessee of equipment under capital leases expiring in various years through 2016. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense for 2014 and 2013.

During the year ended June 30, 2013, the Hospital terminated its lease agreements and was relieved of its access to those leased assets and the liabilities associated with future payments on those leased assets.

Depreciation on assets under capital leases charged to expense in 2014 and 2013, was $-0- and $278,083, respectively.

Property held under capital leases totaled $-0- at June 30, 2014 and 2013.

Note 7. Insurance Programs

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's injuries and illnesses; natural disasters; and medical malpractice.

The Hospital participates in the Louisiana Patients' Compensation Fund (the Fund) for medical malpractice claims. As a participant, the Hospital has a statutory limitation of liability, which provides that no award can be rendered against it in excess of $500,000, plus interest and costs, including future medical costs. The Fund provides coverage on an occurrence basis for claims over $100,000, and up to $500,000. In addition, the Hospital is a participant in the Louisiana Hospital Association Malpractice and General Liability Trust (the Trust). As a participant in the Trust, the Hospital is fully insured against professional liability and general liability claims, with specific loss and aggregate loss limits of $2,500,000, for professional liability claims and $4,500,000, for general liability claims, subject to a $25,000 per claim deductible.

The Hospital participates in the Louisiana Hospital Association Workers' Compensation Inter-local Risk Management Agency. As a participant, the Hospital is insured for workers' compensation claims, subject to a $50,000 per claim deductible.

The Hospital is also self-insured for medical and dental claims up to predetermined stop-loss amounts. Claims in excess of the stop-loss amounts are insured through commercial insurance carriers. The Hospital has reflected its estimate of the ultimate liability for known and incurred, but not reported, claims in the accompanying basic financial statements as other current liabilities on the statements of net position.

Note 7. Insurance Programs (Continued)

The claims liabilities at June 30, 2014 and 2013 are based on the requirements of GASB Statement No. 10. This Statement provides that liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in the Hospital's claims liability amount during the past two years is reflected below:

	2014	2013
Claims Liability, Beginning of Year	**$ 733,950**	$ 978,855
Current Year Claims and Changes in Estimates	**3,181,579**	2,643,353
Current Year Claims Payments	**(3,013,173)**	(2,888,258)
Total	**$ 902,356**	$ 733,950

Note 8. Pension Plan

The Hospital sponsors the Lane Regional Medical Center Retirement Plan (the Plan), a contributory defined benefit pension plan. During 2002, the Board of Commissioners approved an amendment to freeze the Plan with respect to new employees hired on or after July 1, 2002. Benefits will continue to accrue for all participants or potential participants employed as of June 30, 2002. The Board also approved amending the vesting schedule to provide for full vesting at five years, as well as to fully vest employees who may be included in any reduction in workforce.

Plan Description

All employees who have at least two years of continuous service and have worked an average of 20 or more hours a week were eligible to join the Plan on its next anniversary date. Participants who retire at or after the age of 62 with ten years of service are entitled to a retirement benefit, payable monthly for life, equal to 1.5% of their monthly earnings for the highest three anniversary dates preceding retirement or termination for each year of creditable service.

Employees leaving employment after five years of creditable service, but before attaining retirement age, are entitled to benefits upon reaching retirement age equal to their accrued benefits upon termination of employment. The Plan also provides death and disability benefits.

The Plan issues an annual publicly available financial report that includes financial statements and required supplementary information, including 10-year historical trend information. The report may be obtained by writing to Lane Regional Medical Center, 6300 Main Street, Zachary, Louisiana 70791, or by calling (225) 658-4000.

Note 8. Pension Plan (Continued)

Funding Policy

Prior to January 1, 2013, participants were required to contribute three percent (3%) of their monthly earnings. Effective January 1, 2013, participants are required to contribute six percent (6%) of their monthly earnings. The Hospital is required to contribute the actuarially determined amounts necessary to fund normal costs plus an additional amount necessary to amortize unfunded past service costs over a 20-year period (from the date that the past service cost was first recognized). The Hospital, however, is not allowed to contribute more than the amount necessary to achieve a ratio of "actuarial value of assets" to the "present value of accrued benefits" of 150 percent (150%), determined as of the beginning of the Plan year.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation.

Funding Status

The amount shown below as a pension benefit obligation was determined as part of an actuarial valuation in December 2013, for the Plan year ending June 30, 2014, as a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employees' service-to-date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons with other plans. The measure is independent of the actuarial funding methods used to determine contributions to the Plan.

Assumptions used in accounting for the net periodic pension cost as of June 30, 2014, 2013, and 2012, were as follows:

	2014	2013	2012
Discount Rates	7.00%	7.00%	7.00%
Rates of Increase in Compensation Levels	4.00%	4.00%	4.00%
Expected Long-Term Rate of Return on Assets	7.00%	7.00%	7.00%

Note 8. Pension Plan (Continued)

Funding Status (Continued)

Based on the latest actuarial valuation in December 2013, the following table sets forth the Plan's funded status as of the actual valuation periods of July 1, 2014, 2013, and 2012:

	July 1, 2014	July 1, 2013	July 1, 2012
Actuarial Value of Plan Assets	$ 22,537,212	$ 21,191,704	$ 20,034,917
Actuarial Accrued Liability	$ 24,884,180	$ 23,597,353	$ 23,169,251
Unfunded Liability	$ (2,346,968)	$ (2,405,649)	$ (3,134,334)
Funded Ratio	90.6%	89.8%	86.5%
Annual Covered Payroll	$ 5,825,973	$ 6,128,511	$ 6,969,894
Unfunded Deficiencies as a Percentage of Annual Covered Payroll	(40.3%)	(39.3%)	(45.0%)

The Hospital had an annual required contribution of $435,251, $438,056, and $761,808, for the years ended June 30, 2014, 2013, and 2012, respectively.

Plan assets consist principally of cash equivalents, equity securities, and fixed income funds.

Annual Pension Cost and Net Pension Obligation

The Hospital's annual pension cost and net pension obligation to the Plan for the current year are as follows:

Annual Required Contribution	$ 435,251
Interest on Net Pension Obligation	(7,910)
Adjustment to Annual Required Contribution	16,887
Annual Pension Cost	444,228
Contributions Made	435,251
Increase in Net Pension Obligation	8,977
Net Pension (Overpayment) Obligation, Beginning of Year	(113,004)
Net Pension (Overpayment) Obligation, End of Year	$ (104,027)

Note 9. Business and Credit Concentrations

Financial instruments that potentially subject the Hospital to concentrations of credit risk consist principally of unsecured accounts receivable.

The Hospital grants credit to patients, substantially all of whom are local residents. The Hospital generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, and commercial insurance policies).

The mix of net receivables from patients and third-party payors at June 30, 2014 and 2013, was as follows:

	2014	2013
Medicare	**11%**	26%
Medicare Risk	**7%**	11%
Medicaid	**6%**	6%
Commercial Insurance Companies, Health Maintenance Organizations, and Other	**49%**	42%
Self-Pay Patients	**27%**	15%
Total	**100%**	100%

Note 10. Net Patient Service Revenue and Accounts Receivable

As discussed in Note 1, patient service revenue is reported net of contractual adjustments arising from various third-party arrangements. A summary of the basis of reimbursement with third-party payors follows:

Medicare
The Hospital is paid for inpatient acute care services rendered to Medicare program beneficiaries under prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The prospectively determined classification of patients and the appropriateness of the patients' admissions are subject to validation reviews by a Medicare peer review organization which is under contract with the Hospital to perform such reviews.

Note 10. Net Patient Service Revenue and Accounts Receivable (Continued)

Medicare (Continued)

Outpatient services were paid via cost reimbursement methodologies, fee schedule limitations, or cost/fee blending methodologies before August 1, 2000. After August 1, 2000, cost based and cost/fee blend reimbursed services have been paid via the outpatient prospective payment system. Under this system, most outpatient services are paid at predetermined outpatient rates, subject to certain stop-loss provisions referred to by Medicare as the transitional corridor. The transitional corridor limited the potential reductions in reimbursement caused by the implementation of the outpatient prospective payment system through 2003.

Cost reimbursed outpatient services were paid 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. Outpatient services subject to the outpatient prospective payment system are not subject to cost report settlement with several exceptions, and without regard to the transitional corridor.

The Hospital's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through June 30, 2008.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per diem that includes capital costs. Certain types of outpatient services are paid based upon a cost reimbursement methodology. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital, and an audit thereof, by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited and finalized by the Medicaid fiscal intermediary through June 30, 2007.

Revenue from the Medicare and Medicaid programs accounted for approximately 26% and 3%, respectively, of the Hospital's net patient revenue, for the year ended June 30, 2014, and 27% and 2%, respectively, of the Hospital's net patient revenue, for the year ended June 30, 2013. The laws and regulations under which Medicare and Medicaid programs operated are 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. Net patient revenue increased $736,810 for the year ended June 30, 2014, and decreased $137,272 for the year ended June 30, 2013, due to retroactive adjustments in excess of amounts previously estimated.

Other

The Hospital has also entered into agreements with certain other commercial insurance carriers 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.

Note 11. Other Operating Revenue

Other operating revenue recognized during the years ended June 30, 2014 and 2013, consists of the following:

	2014	2013
Upper Payment Limit Distributions	$ 2,459,123	$ 1,740,539
Pharmacy 340B Program Revenues	1,745,936	5,023,977
EHR Incentive Payments	2,192,421	-
Cafeteria Revenues	435,538	394,054
Other	573,575	359,150
Total Other Operating Revenues	7,406,593	7,517,720
Less: Related Expenses	(83,854)	(3,158,823)
Other Operating Revenue, Net	$ 7,322,739	$ 4,358,897

Note 12. Commitments and Contingencies

The Hospital is involved in various legal actions and claims that arose as a result of events that occurred in the normal course of operations. The ultimate resolution of these matters is not ascertainable at this time; however, management is of the opinion that any liability or loss in excess of insurance coverage resulting from such litigation will not have a material effect upon the financial position of the Hospital.

Recovery Audit Contractors
To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement Recovery Audit Contractor (RAC) and Medicaid Integrity Contractor (MIC) programs on a permanent and nationwide basis no later than 2010.

The programs use RACs and MICs to search for potentially improper Medicare and Medicaid payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year but not longer than three years. Once a RAC or MIC identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare or Medicaid reimbursement in an amount estimated to equal the overpayment.

Note 12. Commitments and Contingencies (Continued)

Recovery Audit Contractors (Continued)

The Hospital will deduct from revenue amounts assessed under the RAC and MIC audits at the time a notice is received until such time that estimates of net amounts due can be reasonably estimated. RAC and MIC assessments are anticipated; however, the outcome of such assessments is unknown and cannot be reasonably estimated. Management's experience had determined that RAC and MIC assessments have been insignificant to date.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the American Recovery and Reinvestment Act of 2009, provides for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified health records technology (EHR). Payments under both programs are contingent upon a hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital will recognize revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period. As disclosed in Note 11, the Hospital recognized revenue of $2,192,421 related to attesting to meeting meaningful use in its 2014 fiscal year.

Derivative Instruments

The Hospital's derivative instrument includes provisions that the Hospital will post collateral to the counterparty in the event the Hospital does not maintain a minimum Debt Service Coverage Ratio of 1.35 or Days Cash on Hand falls below one hundred-ten days. As of June 30, 2013, the Hospital achieved the aforementioned requirements. The derivative instrument was terminated on July 16, 2013.

Note 13. Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation. The reclassifications have no effect on previously reported net income.

Note 14. New GASB Statements

During the year ended June 30, 2014, the Hospital adopted GASB Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement is intended to enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchnage financial guarantees. This Statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees and augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. The adoption of this Statement had an effect on the titles within the financial statements and on the notes to the financial statements.

During the year ended June 30, 2013, the Hospital adopted GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of GASB 20 for business type activities to apply post November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities that so elected can continue to apply, as other accounting literature, post November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. GASB Statement 62 has been applied retrospectively and has had no impact on the Hospital's net position, changes in net position or financial reporting disclosures.

For the year ended June 30, 2013, the Hospital adopted GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. The adoption of this Statement had an effect on the titles within the financial statements and on the notes to the financial statements.

For the year ended June 30, 2013, the Hospital adopted GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. With this adoption, the Hospital recognized an outflow of resources.

Note 15. Blended Component Unit Condensed Financial Information

As required, GASB 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and 34*, requires certain financial information about blended component units to be presented. In the financial statements for the Hospital, Lane RMC Service Corporation, Lane RMC Foundation, and Lane RMC are presented in a blended format. The tables below individually disclose the net position and changes in net position for each blended entity as of and for the years ended June 30, 2014 and 2013. Material inter-entity transactions are eliminated in the presentation below:

	2014			
	Lane RMC	Lane RMC Service Corp	Lane RMC Foundation	Total
Current assets	$ 45,876,444	$ -	$ 334,333	$ 46,210,777
Capital assets, net	52,801,589	-	-	52,801,589
Other assets	6,970,142	-	-	6,970,142
Deferred outflows	-	-	-	-
Total assets and deferred outflows	$ 105,648,175	$ -	$ 334,333	$ 105,982,508
Current liabilities	$ 10,532,329	$ -	$ -	$ 10,532,329
Long-term liabilities	21,910,000	-	-	21,910,000
Net position	73,205,846	-	334,333	73,540,179
Total liabilities and net position	$ 105,648,175	$ -	$ 334,333	$ 105,982,508

	2014			
	Lane RMC	Lane RMC Service Corp	Lane RMC Foundation	Total
Operating revenues	$ 78,080,765	$ -	$ 209,446	$ 78,290,211
Depreciation	5,119,564	-	-	5,119,564
Other operating expenses	71,487,554	-	125,946	71,613,500
Operating income	1,473,647	-	83,500	1,557,147
Non-operating revenues	1,966,889	-	-	1,966,889
Excess of revenues over expenses	3,440,536	-	83,500	3,524,036
Capital contributions	-	-	-	-
Change in net position	$ 3,440,536	$ -	$ 83,500	$ 3,524,036

Note 15. Blended Component Unit Condensed Financial Information (Continued)

	2013			
	Lane RMC	Lane RMC Service Corp	Lane RMC Foundation	Total
Current assets	$ 39,008,844	$ -	$ 208,388	$ 39,217,232
Capital assets, net	48,420,168	-	-	48,420,168
Other assets	2,826,547	-	-	2,826,547
Deferred outflows	332,681	-	-	332,681
Total assets and deferred outflows	$ 90,588,240	$ -	$ 208,388	$ 90,796,628
Current liabilities	$ 8,933,938	$ -	$ -	$ 8,933,938
Long-term liabilities	11,846,547	-	-	11,846,547
Net position	69,807,755	-	208,388	70,016,143
Total liabilities and net position	$ 90,588,240	$ -	$ 208,388	$ 90,796,628

	2013			
	Lane RMC	Lane RMC Service Corp	Lane RMC Foundation	Total
Operating revenues	$ 73,566,183	$ -	$ 306,769	$ 73,872,952
Depreciation	5,529,052	-	-	5,529,052
Other operating expenses	66,678,500	-	194,023	66,872,523
Operating income	1,358,631	-	112,746	1,471,377
Non-operating revenues	314,673	-	-	314,673
Excess of revenues over expenses	1,673,304	-	112,746	1,786,050
Capital contributions	-	-	-	-
Change in net position	$ 1,673,304	$ -	$ 112,746	$ 1,786,050

Cash flows generated by the aggregate blended components separately from the Lane RMC have not been material and are not presented.

Note 16. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, October 20, 2014, and determined that the following events occurred that require disclosure:

On August 28, 2014, the Hospital established a line-of-credit that permits borrowings up to $10 million, with interest charged at 3.25%. The line-of-credit matures on June 30, 2015, at which time all borrowings and accrued interest will be due and payable.

No subsequent events occurring after the date above have been evaluated for inclusion in these financial statements.

HOSPITAL SERVICE DISTRICT NO. 1
OF EAST BATON ROUGE PARISH, LOUISIANA
d/b/a LANE REGIONAL MEDICAL CENTER
Schedule of Board of Commissioners and Salaries
For the Years Ended June 30, 2014 and 2013

	2014	2013
Dell Guerra	**$ 250**	$ 250
Frank Ragsdale	**250**	250
Mark Thompson	**250**	250
Jimmy Jackson	**200**	225
Joan Lansing	**150**	225
Gaynell Young	**250**	225
Harold Rideau	**225**	200
Patricia D. Gauthier	**250**	200
Keith Elbourne, M.D.	**200**	175
Total	**$ 2,025**	$ 2,000

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

Independent Auditor's Report

To the Board of Commissioners
Hospital Service District No. 1 of
East Baton Rouge Parish, Louisiana
d/b/a Lane Regional Medical Center
Zachary, Louisiana

We have audited, in accordance with the 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, the consolidated financial statements of the business-type activities of Hospital Service District No. 1 of East Baton Rouge Parish, Louisiana, d/b/a Lane Regional Medical Center (the Hospital), a component unit of the City-Parish of Baton Rouge, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Hospital's basic consolidated financial statements, and have issued our report thereon dated October 20, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not indentify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free of material misstatement, we 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

LaPorte

A Professional Accounting Corporation

Metairie, LA
October 20, 2014

A. FINDINGS - FINANCIAL STATEMENT AUDIT

No findings noted.

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No findings noted.

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October 27, 2014

Board of Commissioners
Lane Regional Medical Center

Dear Commissioners:

This letter includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the basic financial statements of Lane Regional Medical Center (Medical Center) as of and for the year ended June 30, 2014. These items are offered as constructive suggestions to be considered as part of the ongoing process of modifying and improving the Medical Center's practices and procedures. Where applicable, we make specific reference to the System member to which the comments and suggestions apply.

M2014-001 General Ledger Accounts:

In analyzing the general ledger during the audit, we observed that there are numerous balance sheet level accounts that are being used to account for transactions associated with similar accounts. This is especially true for those accounts associated with Cash and Cash Equivalents and Fixed Assets.

We recommend an assessment of the chart of accounts to facilitate a reduction in the number of general ledgers accounts that are used to account for transactions within those accounts associated with Cash and with Fixed Assets. For Cash, we recommend one general ledger account for a respective bank account. For Fixed Assets, we recommend one general ledger account for each major grouping of fixed assets. With this design, there would be only one general ledger account to reconcile to each bank statement and there would be only one account to reconcile to the Fixed Asset Summary report. This should make the reconciliation process more efficient.

Management Response and Corrective Action: Management understands that the General Ledger is not setup to facilitate the most efficient reconciliation process. Over the course of the year management will work with accounting to determine where these inefficiencies are most prevalent and devise appropriate course of action to rectify.

M2014-002 Fixed Asset Subsidiary Reports:

In auditing the fixed asset roll-forward disclosure, we experienced difficulties in efficiently reconciling from the fixed asset subsidiary reports to the general ledger. One of the contributing factors is the multiple general ledger accounts mentioned above. Another contributing factor is that the Depreciation Expense Reports, the subsidiary to the general ledger, is not categorized for a clear and distinct relationship to the general ledger accounts.

We recommend an assessment of the multiple Depreciation Expense Reports and their relationship to the general ledger accounts supporting the cost of the assets, as well as the depreciation expense and accumulated depreciation on the assets.

Management Response and Corrective Action: Management concurs with the recommendation and will work with accounting to facilitate a more efficient reconciliation process.

M2014-003 Investment in Equity Securities:

In the 2013 fiscal year, the Medical Center modified its investment strategy and moved excess cash into a diverse investment portfolio that includes equity securities. The Medical Center relied on numerous state statutes in providing the guidance for its current investment portfolio.

During the course of performing the 2014 fiscal year-end audit, we were in receipt of a notice from the Louisiana Legislative Auditor's (LLA) office. By way of e mail, the LLA informed us of their being aware of the Medical Center's current investment policy. They also included an opinion letter from the Attorney General. That opinion letter addressed a request on behalf of the Hospital Service District of the Parish of Terrebonne and stated that under the Louisiana Constitution, the Hospital Service District may not purchase, either directly or through mutual funds, stocks with public funds. The opinion goes on to state that to the extent that Louisiana Revised Statute 46:1073.1 purports to allow the use of public funds to be invested in stocks, the statute is unconstitutional.

We are aware that the Medical Center has engaged legal counsel relative to its investment policy and its compliance with state laws and regulations. We recommend continued consultations with its legal counsel in light of the attorney general's opinion.

Management Response and Corrective Action: In conformity with Louisiana Revised Statute 46:1073.1 the Medical Center's Board of Commissioners adopted an investment policy setting forth rules and regulations with respect to the Medical Center's investments. Through its counsel, the Medical Center is aware that the Louisiana Attorney General's office has opined to another party that Louisiana Revised Statute 46:1073.1 contravenes the Louisiana Constitution. Notwithstanding this opinion, Louisiana law provides that the laws adopted by the State are presumed to be constitutional until judicially determined otherwise.

As recommended, the Medical Center will continue to consult with its legal counsel relative to its investment policy.

This letter is intended solely for the information and use of the Commissioners and Management of Lane Regional Medical Center and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely;

LaPorte

LaPorte
A Professional Accounting Corporation