Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)

Auditor's Reports and Financial Statements

September 30, 2014 and 2013

BKD LLP
CPAs & Advisors

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
September 30, 2014 and 2013

Contents

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14241 Dallas Parkway, Suite 1100 // Dallas, TX 75254-2961
972.702.8262 // fax 972.702.0673 // bkd.com

Independent Auditor's Report

Board of Commissioners
Hospital Service District No. 1
A component unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
New Iberia, Louisiana

Report on the Financial Statements

We have audited the accompanying balance sheets of Hospital Service District No. 1, a component unit of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center) (Medical Center), as of September 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1, a component unit of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center) as of September 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such 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, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The other information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2015, on our consideration of the Medical Center's internal control over financial reporting and 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 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* in considering Hospital Service District No. 1's, a component unit of Iberia Parish, State of Louisiana, (d/b/a Iberia Medical Center) internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
February 27, 2015

Introduction

This management's discussion and analysis of the financial performance of Hospital Service District No. 1, a component unit of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center) (Medical Center) provides an overview of the Medical Center's financial activities for the years ended September 30, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Medical Center.

Financial Highlights

- Cash increased by $1,077,000 or 6.4% in 2014 compared to 2013 and increased by $1,671,000 or 11.1% in 2013 compared to 2012.
- The Medical Center's net position increased in each of the past two years with a $1,550,000 or 4.9% increase in 2014 and a $2,298,000 or 7.9% in 2013.
- The Medical Center reported operating income in 2014 of $1,755,000 and in 2013 of $2,131,000, a decrease of $376,000 or 17.7%. The operating income in 2013 decreased by $856,000 or 28.7% compared to the operating income reported in 2012.
- Net nonoperating expense increased by $373,000 in 2014 compared to 2013 and net nonoperating revenues increased $231,000 in 2013 compared to 2012.

Using This Annual Report

The Medical Center's financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Medical Center, including resources held by the Medical Center but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Medical Center is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any hospital's finances is, "Is the entity as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Medical Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net position and changes in it. The Medical Center's total net position, the difference between assets and liabilities, is one measure of the Medical Center's financial health or financial position. Over time, increases or decreases in the Medical Center's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Medical Center's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Medical Center.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from three defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Medical Center's Net Position

The Medical Center's net position is the difference between its assets and liabilities reported in the balance sheet. The Medical Center's net position increased by $1,550,000 (4.9%) in 2014 over 2013 and by $2,298,000 (7.9%) in 2013 over 2012, as shown in Table 1.

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Management's Discussion and Analysis (Continued)
Years Ended September 30, 2014 and 2013

Table 1: Assets, Liabilities and Net Position

	2014	2013	2012
Assets			
Patient accounts receivable, net	$ 7,463,219	$ 7,202,426	$ 6,450,880
Other current assets	19,939,033	19,335,760	15,220,082
Capital assets, net	27,985,406	27,896,741	28,338,161
Other noncurrent assets	845,575	1,004,947	3,104,796
Total assets	$ 56,233,233	$ 55,439,874	$ 53,113,919
Liabilities			
Long-term debt	$ 12,742,733	$ 13,631,346	$ 13,321,419
Other current and noncurrent liabilities	10,431,738	10,299,791	10,581,417
Total liabilities	23,174,471	23,931,137	23,902,836
Net Position			
Net investment in capital assets	15,200,441	15,160,955	15,092,641
Restricted expendable	797,931	24,328	2,990,068
Unrestricted	17,060,390	16,323,454	11,128,374
Total net position	33,058,762	31,508,737	29,211,083
Total liabilities and net position	$ 56,233,233	$ 55,439,874	$ 53,113,919

A significant change in the Medical Center's assets in 2014 is the increase in current assets. The increase in current assets results primarily from the increase in cash due to timing of payments received from and on behalf of patients.

The most significant change in the Medical Center's financial position in 2014 is the decrease in long-term debt for scheduled bond payments.

Significant changes in the Medical Center's assets in 2013 were the increase in current assets and decrease in noncurrent assets. The increase in current assets and decrease in noncurrent assets resulted primarily from the refinancing of the Series 2005C, 2005D, 2005E, 2008, 2009A and 2009B bonds with the 2013A and 2013B bonds, which included fewer restrictions on funds to meet debt service requirements.

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Management's Discussion and Analysis (Continued)
Years Ended September 30, 2014 and 2013

Operating Results and Changes in the Medical Center's Net Position

In 2014, the Medical Center's net position increased by $1,550,000 or 4.9% as shown in Table 2. This increase is made up of several different components and represents a decline of 32.6% compared with the increase in net position for 2013 of $2,298,000. The Medical Center's change in net position decreased from $2,931,000 in 2012 to $2,298,000 in 2013, a decrease of 21.6%.

Table 2: Operating Results and Changes in Net Position

	2014	2013	2012
Operating Revenues			
Net patient service revenue	$ 57,850,357	$ 53,512,529	$ 51,194,257
Other operating revenues	3,805,547	5,977,449	6,976,682
Total operating revenues	61,655,904	59,489,978	58,170,939
Operating Expenses			
Salaries, wages and employee benefits	31,272,039	29,912,963	30,326,081
Supplies, professional fees and purchased services	25,833,525	24,646,330	22,428,383
Depreciation and amortization	2,820,059	2,625,834	2,440,857
Other operating expenses	(24,282)	174,043	(11,678)
Total operating expenses	59,901,341	57,359,170	55,183,643
Operating Income	1,754,563	2,130,808	2,987,296
Nonoperating Revenues (Expenses)			
Interest income	80,032	59,393	52,276
Interest expense	(373,857)	(539,568)	(671,645)
Legal settlement	-	575,000	329,500
Income from investments in joint ventures	81,024	152,053	218,935
Bond issue costs	-	(86,950)	-
Total nonoperating revenues (expenses)	(212,801)	159,928	(70,934)
Excess of Revenues Over Expenses	1,541,762	2,290,736	2,916,362
Capital Grants and Gifts	8,263	6,918	14,497
Increase in Net Position	$ 1,550,025	$ 2,297,654	$ 2,930,859

Operating Income

The first component of the overall change in the Medical Center's net position is its operating income – generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Medical Center has reported an operating gain. This is consistent with the Medical Center's management's goal of operating the Medical Center in an efficient manner.

The operating income decreased in 2014 by $376,000 or 17.7% as compared to 2013. The primary components of the decreased operating income are shown below:

- An increase in net patient service revenue of $4,338,000 or 8.1%
- A decrease in other operating revenues of $2,172,000 or 36.3%
- An increase in salaries, wages and employee benefits of $1,359,000 or 4.5%
- An increase in supplies and other costs of $1,187,000 or 4.8%

Net patient service revenue increased partially due to increases in patient activity. The Medical Center's patient days increased in 2014, with total patient days in 2014 of 13,367 compared to 13,087 in 2013, an increase of 2.1%.

The other operating revenue decrease consists primarily of electronic health record (EHR) funding awarded from Medicare and Medicaid and payments awarded under Louisiana Upper Payment Limit Programs (UPL). EHR funds awarded from Medicare and Medicaid during 2014 totaled $111,000 and $88,000 compared to funds awarded in 2013 of $657,000 and $112,000, respectively. Funds awarded from UPL programs during 2014 totaled $971,000 as compared to funds awarded in 2013 of $2,547,000.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income and interest expense. Interest expense in 2014 of $373,857 decreased 30.7% compared to 2013 expense of $539,568 as a result of refinancing of bonds in 2013. Nonoperating revenues also included legal settlements of $575,000 and $359,500 during 2013 and 2012, respectively. There were no legal settlements during 2014.

Capital Grants and Gifts

The Medical Center occasionally receives both capital and operating grants from various state and federal agencies for specific programs. The Medical Center received approximately $8,300 and $6,900 in capital grants in 2014 and 2013, respectively.

The Medical Center's Cash Flows

Changes in the Medical Center's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2014, 2013 and 2012, discussed earlier.

Capital Assets and Debt Administration

Capital Assets

At the end of 2014 and 2013, the Medical Center had approximately $27,985,000 and $27,897,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2014 and 2013, the Medical Center purchased new property and equipment costing $2,917,000 and $2,358,000, respectively.

Debt

At September 30, 2014 and 2013, the Medical Center had $14,034,000 and $14,875,000, respectively, in revenue bonds and capital lease obligations outstanding. In 2013, the Medical Center refinanced and paid off the Series 2005C, 2005D, 2005E, 2008 and the 2009 bonds by issuing $11,785,000 in Series 2013A and 2013B bonds. The Medical Center's formal debt issuances and revenue bonds are subject to limitations imposed by state law.

Contacting the Medical Center's Financial Management

This financial report is designed to provide the Medical Center's patients, suppliers and creditors with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Medical Center Administration by telephoning 337.364.0441.

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Balance Sheets
September 30, 2014 and 2013

Assets

	2014	2013
Current Assets		
Cash	$ 15,742,538	$ 14,548,633
Restricted cash – current	1,544,907	1,533,740
Patient accounts receivable, net of allowance;		
2014 – $14,709,000; 2013 – $13,833,000	7,463,219	7,202,426
Other receivables	132,092	635,272
Supplies	1,829,268	1,951,088
Prepaid expenses and other	690,228	667,027
Total current assets	27,402,252	26,538,186
Noncurrent Cash		
Held under bond trust indenture	2,046,744	2,163,541
Less amount required to meet current obligations	(1,544,907)	(1,533,740)
	501,837	629,801
Capital Assets, Net	27,985,406	27,896,741
Other Assets	343,738	375,146
Total assets	$ 56,233,233	$ 55,439,874

Liabilities and Net Position

	2014	2013
Current Liabilities		
Current maturities of long-term debt	$ 1,291,045	$ 1,243,653
Accounts payable	2,156,438	2,238,406
Accrued expenses	4,656,718	4,689,739
Estimated amounts due to third-party payers	2,327,537	2,127,993
Total current liabilities	10,431,738	10,299,791
Long-term Debt	12,742,733	13,631,346
Total liabilities	23,174,471	23,931,137
Net Position		
Net investment in capital assets	15,200,441	15,160,955
Restricted expendable	797,931	24,328
Unrestricted	17,060,390	16,323,454
Total net position	33,058,762	31,508,737
Total liabilities and net position	$ 56,233,233	$ 55,439,874

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2014 and 2013

	2014	2013
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2014 – $15,711,000; 2013 – $17,561,000	$ 57,850,357	$ 53,512,529
Other	3,805,547	5,977,449
Total operating revenues	61,655,904	59,489,978
Operating Expenses		
Salaries and wages	24,509,665	22,951,621
Employee benefits	6,762,374	6,961,342
Purchased services and professional fees	5,790,350	6,881,660
Supplies and other	19,173,705	16,933,628
Insurance	869,470	831,042
Depreciation and amortization	2,820,059	2,625,834
(Gain) loss on sale of property and equipment	(24,282)	174,043
Total operating expenses	59,901,341	57,359,170
Operating Income	1,754,563	2,130,808
Nonoperating Revenues (Expenses)		
Interest income	80,032	59,393
Interest expense	(373,857)	(539,568)
Legal settlement	-	575,000
Income from investments in joint ventures	81,024	152,053
Bond issue costs	-	(86,950)
Total nonoperating revenues (expenses)	(212,801)	159,928
Excess of Revenues Over Expenses Before Capital Grants and Gifts	1,541,762	2,290,736
Capital Grants and Gifts	8,263	6,918
Increase in Net Position	1,550,025	2,297,654
Net Position, Beginning of Year	31,508,737	29,211,083
Net Position, End of Year	$ 33,058,762	$ 31,508,737

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013
Operating Activities		
Receipts from and on behalf of patients	$ 55,659,681	$ 50,085,906
Payments to suppliers and contractors	(25,899,414)	(25,023,500)
Payments to employees	(31,305,060)	(29,712,313)
Other receipts, net	6,438,154	9,733,201
Net cash provided by operating activities	4,893,361	5,083,294
Capital and Related Financing Activities		
Repayment of amounts due Iberia Parish under debt agreements	(1,145,000)	(12,583,333)
Proceeds from the sale of capital assets	32,069	-
Proceeds from the issuance of bonds	-	11,785,000
Repayments of capital lease obligations	(173,536)	(277,295)
Interest paid on debt and capital lease obligations	(373,857)	(639,941)
Purchase of capital assets	(2,440,781)	(2,513,623)
Proceeds from legal settlement	-	575,000
Payments of bond issue costs	-	(86,950)
Capital grants and gifts	8,263	6,918
Net cash used in capital and related financing activities	(4,092,842)	(3,734,224)
Investing Activities		
Interest income	80,032	59,393
Distributions received from joint ventures	196,557	262,757
Net cash provided by investing activities	276,589	322,150
Increase in Cash	1,077,108	1,671,220
Cash, Beginning of Year	16,712,174	15,040,954
Cash, End of Year	$ 17,789,282	$ 16,712,174

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Statements of Cash Flows (Continued)
Years Ended September 30, 2014 and 2013

	2014	2013
Reconciliation of Cash to the Balance Sheets		
Cash	$ 15,742,538	$ 14,548,633
Restricted cash	2,046,744	2,163,541
Total cash	$ 17,789,282	$ 16,712,174
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income	$ 1,754,563	$ 2,130,808
Depreciation and amortization	2,820,059	2,625,834
(Gain) loss on disposal of capital assets	(24,282)	174,043
Provision for uncollectible accounts	15,711,033	17,560,769
Changes in operating assets and liabilities		
Patient accounts receivable, net	(15,971,826)	(18,312,315)
Estimated amounts due from and to third-party payers	199,544	818,559
Accounts payable and accrued expenses	(113,404)	540,909
Other assets and liabilities	517,674	(455,313)
Net cash provided by operating activities	$ 4,893,361	$ 5,083,294
Supplemental Cash Flows Information		
Capital asset additions in accounts payable	$ 126,713	$ 128,298
Capital lease obligations incurred for capital assets	$ 477,315	$ -

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Hospital Service District No. 1, a component unit of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center) (Medical Center) is a 101 bed acute care medical center located in New Iberia, Louisiana. The Medical Center is a component unit of Iberia Parish (Parish). The Parish appoints a nine-member board of commissioners who operate the Medical Center. The Medical Center primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Parish area.

The Medical Center's financial statements include the operations of Iberia Medical Center Foundation (the Foundation). The Foundation is a controlled corporation that is a component unit of the Medical Center and is included in the financial statements using the blending method.

Basis of Accounting and Presentation

The accompanying financial statements of the Medical Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and parish appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific such as investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Medical Center first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Use of 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, liabilities and deferred inflows and outflows of resources 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.

Risk Management

The Medical Center 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; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Medical Center is self-insured for a portion of its exposure to risk of loss from employee health claims. An annual estimated provision is accrued for the self-insured portion of employee health claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investment in Joint Ventures

The Medical Center holds a 20% interest in New Iberia Surgery Center, which provides outpatient surgery services to the community. This investment is carried on the equity method of accounting. The Medical Center also holds a 15% ownership interest in Acadiana Diagnostic Imaging, LLC, which is a provider of imaging services. This investment is accounted for using the cost method.

Patient Accounts Receivable

The Medical Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Medical Center provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Medical Center:

Land improvements	15 – 25 years
Buildings and leasehold improvements	20 – 40 years
Equipment	3 – 20 years

The Medical Center capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	2014	2013
Total interest expense incurred on borrowings for project	$ 34,344	$ 48,199
Interest income from investment of proceeds of borrowings for project	(7,747)	(9,042)
Net interest cost capitalized	$ 26,597	$ 39,157
Interest capitalized	$ 34,344	$ 48,199
Interest charged to expense	373,857	539,568
Total interest incurred	$ 408,201	$ 587,767

Compensated Absences

The Medical Center's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the Medical Center is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Medical Center, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Medical Center provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

Income Taxes

As an essential government function of the Parish, the Medical Center is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Medical Center is subject to federal income tax on any unrelated business taxable income.

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 one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which are approved by the Centers for Medicare and Medicaid Services. Payment under both programs is contingent on the 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 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 Medical Center recognizes 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.

The Medical Center did not complete all fourth year requirements under the Medicare program during 2014, but attested under the Centers for Medicare & Medicaid Services flexibility rule subsequent to year-end. As funds that may be received following the attestation under the flexibility rule are uncertain, the Medical Center has not recorded a receivable at September 30, 2014 for year four. The Medical Center has recorded revenue of approximately $199,000 which is included in other revenue within operating revenues in the accompanying statement of revenues, expenses and changes in net position for adjustments received from Medicare and Medicaid.

Note 2: Net Patient Service Revenue

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center at amounts different from its established rates. These payment arrangements include:

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare administrative contractor.
- **Medicaid** – Inpatient services rendered to Medicaid program beneficiaries are paid based on prospectively determined rates. Outpatient services are paid under either a cost reimbursement methodology or using defined allowable charges. The Medical Center is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid administrative contractor.

Approximately 51% and 52%, respectively, of net patient service revenue is from participation in the Medicare and state sponsored Medicaid programs for the years ended September 30, 2014 and 2013. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Medical Center's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance or other qualified investments in the state of Louisiana. At September 30, 2014, the Medical Center's deposits were either insured or collateralized in accordance with state law.

Note 4: Patient Accounts Receivable

The Medical Center grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30, 2014 and 2013, consisted of:

	2014	2013
Medicare	$ 2,104,706	$ 2,058,509
Medicaid	481,962	410,380
Other third-party payers	3,945,413	3,664,577
Patients	15,639,748	14,901,811
	22,171,829	21,035,277
Less allowance for uncollectible accounts	14,708,610	13,832,851
	$ 7,463,219	$ 7,202,426

Note 5: Capital Assets

Capital assets activity for the years ended September 30, 2014 and 2013, was:

	2014				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 1,474,357	$ -	$ -	$ -	$ 1,474,357
Land improvements	291,764	12,884	-	8,575	313,223
Buildings and leasehold improvements	38,993,011	223,733	-	1,513,790	40,730,534
Equipment	23,703,702	1,293,008	(8,900)	264,647	25,252,457
Construction in progress	773,492	1,386,886	-	(1,787,012)	373,366
	65,236,326	2,916,511	(8,900)	-	68,143,937
Less accumulated depreciation	(37,339,585)	(2,820,059)	1,113	-	(40,158,531)
Capital assets, net	$ 27,896,741	$ 96,452	$ (7,787)	$ -	$ 27,985,406

	2013				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 1,474,357	$ -	$ -	$ -	$ 1,474,357
Land improvements	372,935	5,201	(86,372)	-	291,764
Buildings and leasehold improvements	38,954,492	162,171	(885,984)	762,332	38,993,011
Equipment	24,534,442	1,518,066	(2,348,806)	-	23,703,702
Construction in progress	862,805	673,019	-	(762,332)	773,492
	66,199,031	2,358,457	(3,321,162)	-	65,236,326
Less accumulated depreciation	(37,860,870)	(2,625,834)	3,147,119	-	(37,339,585)
Capital assets, net	$ 28,338,161	$ (267,377)	$ (174,043)	$ -	$ 27,896,741

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at September 30, 2014 and 2013, consisted of:

	2014	2013
Payable to suppliers and contractors	$ 2,156,438	$ 2,238,406
Payable to employees (including payroll taxes and benefits)	4,244,003	4,179,394
Other	412,715	510,345
	$ 6,813,156	$ 6,928,145

Note 7: Medical Malpractice Claims

The Medical Center has joined together with other providers of health care services to form the Louisiana Hospital Association Medical Malpractice and General Liability Trust Fund, a risk pool (Pool) currently operating as a common risk management and insurance program for its members. The Medical Center purchases medical malpractice insurance from the Pool under a claims-made policy. The Medical Center pays an annual premium to the Pool for its torts insurance coverage. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Medical Center's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Employee Health Claims

Substantially all of the Medical Center's employees and their dependents are eligible to participate in the Medical Center's employee health insurance plan. The Medical Center is self-insured for health claims of participating employees and dependents up to an annual stop-loss limit between $70,000 and $2,000,000 per employee. Commercial stop-loss insurance coverage is purchased for claims in excess of these amounts. A provision is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Medical Center's estimate will change by a material amount in the near term.

Activity in the Medical Center's accrued employee health claims liability during 2014 and 2013, is summarized as follows:

	2014	2013
Balance, beginning of year	$ 602,730	$ 761,182
Current year claims incurred and changes in estimates for claims incurred in prior years	2,033,858	2,434,804
Claims and expenses paid	(2,321,336)	(2,593,256)
Balance, end of year	$ 315,252	$ 602,730

Note 9: Long-term Obligations

The following is a summary of long-term obligation transactions for the Medical Center for the years ended September 30, 2014 and 2013:

	2014				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	$ 14,770,000	$ -	$ 1,145,000	$ 13,625,000	$ 1,195,000
Capital lease obligations	104,999	477,315	173,536	408,778	96,045
Total long-term obligations	$ 14,874,999	$ 477,315	$ 1,318,536	$ 14,033,778	$ 1,291,045

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	$ 15,568,333	$ 11,785,000	$ 12,583,333	$ 14,770,000	$ 1,145,000
Capital lease obligations	382,294	-	277,295	104,999	98,653
Total long-term obligations	$ 15,950,627	$ 11,785,000	$ 12,860,628	$ 14,874,999	$ 1,243,653

Revenue Bonds Payable

Revenue bonds payable consist of the various series of the Iberia Parish, State of Louisiana Hospital Revenue Bonds, as shown below:

Bond Series	Original Issue Amount	Interest Rate	Final Maturity	Balance September 30, 2014	Balance September 30, 2013
Series 2005A	$ 7,900,000	4.15%	May 2016	$ 1,955,000	$ 2,985,000
Series 2013A	$ 8,265,000	2.48%	November 2023	8,185,000	8,265,000
Series 2013B	$ 3,520,000	2.24%	November 2023	3,485,000	3,520,000
				$ 13,625,000	$ 14,770,000

During 2013, the Series 2013A and 2013B bonds were issued to refinance the Series 2005C, 2005D, 2005E, 2008, 2009A and 2009B bonds at lower interest rates. The bonds are payable in semiannual installments of principal and interest through final maturity. The bonds are secured by the net revenues of the Medical Center, a mortgage on the Medical Center's property and assets restricted under the bond agreement. The bonds are also secured by a pledge of the general revenues of the Parish should the Medical Center's revenues and other security not be sufficient to pay obligations under the bond agreements.

The Series 2005A bonds are payable in annual installments ranging from $235,000 to $640,000 through May 2016.

The Series 2013A bonds are payable in semi-annual installments ranging from $80,000 to $1,070,000 through November 2023.

The Series 2013B bonds are payable in annual installments ranging from $35,000 to $445,000 through November 2023.

The bond agreements require that certain funds be established to pay debt service on the bonds. Accordingly, these funds are included as restricted expendable assets under bond agreements. The indenture agreement also requires the Medical Center to comply with certain restrictive covenants, including minimum insurance coverage and maintaining a historical debt-service coverage ratio of at least 1.20 to 1.00. The agreements also require the Parish to maintain days cash on hand in excess of 90 days of expense.

The debt service requirements as of September 30, 2014, are as follows:

Year Ending September 30,	Total to be Paid	Principal	Interest
2015	$ 1,544,907	$ 1,195,000	$ 349,907
2016	1,536,958	1,240,000	296,958
2017	1,539,090	1,285,000	254,090
2018	1,537,774	1,315,000	222,774
2019	1,540,676	1,350,000	190,676
2020 – 2024	7,683,626	7,240,000	443,626
	$ 15,383,031	$ 13,625,000	$ 1,758,031

Capital Lease Obligations

The Medical Center has entered into various lease agreements for equipment, which are accounted for as capital leases. Assets under capital leases at September 30, 2014 and 2013, totaled $477,000 and $3,933,000, net of accumulated depreciation of $88,000 and $3,933,000, respectively. The following is a schedule by year of future minimum lease payments under capital lease, including interest at rates of 5.30% to 6.95%, together with the present value of the future minimum lease payments as of September 30, 2014:

2015	$ 120,151
2016	108,828
2017	108,828
2018	108,828
2019	9,069
Total minimum lease payments	455,704
Less amount representing interest	(46,926)
Present value of future minimum lease payments	$ 408,778

Note 10: Operating Leases

Operating leases for medical and office equipment expire in various years through 2019. These leases generally contain renewal options for periods ranging from one to three years and require the Medical Center to pay all executory costs (property taxes, maintenance and insurance). Rental payments include minimum rentals, plus contingent rentals based on revenues.

Future minimum lease payments at September 30, 2014, were:

2015	$ 405,260
2016	351,024
2017	300,554
2018	268,026
2019	115,424
	$ 1,440,288

Minimum future rentals receivable under noncancellable operating leases at September 30, 2014, were:

2015	$ 690,737
2016	394,223
2017	278,499
2018	207,787
2019	190,300
	$ 1,761,546

Rental expense (income) for all operating leases consisted of:

	2014	2013
Minimum rentals	$ 926,484	$ 780,355
Sublease rental income	(998,146)	(996,786)
	$ (71,662)	$ (216,431)

Note 11: Pension Plan

Plan Description

The Medical Center contributes to the Parochial Employees' Retirement System (PERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the state of Louisiana (State). PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS is comprised of two distinct plans – Plan A and Plan B – with separate assets and benefit provisions. Employees of the Medical Center are members of Plan A. Benefit provisions are established by state law and may be amended only by the State Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to PERS at P.O. Box 14619, Baton Rouge, Louisiana, 70898, or by calling 225.928.1361.

Funding Policy

Plan members are required to contribute 9.50% of their annual covered salary and the Medical Center is required to contribute at an actuarially determined rate. The current rate is 16.00% of annual covered payroll for 2014 and 16.75% for 2013. The contribution requirements of plan members and the Medical Center are established and may be amended by the PERS Board of Trustees. The Medical Center's contributions to PERS for the years ended September 30, 2014 and 2013, were $3,317,000 and $3,354,000, respectively, which equaled the required contributions for each year.

Note 12: Management Company

The Medical Center has a management contract with HealthTech Management Services (HealthTech). In addition to annual management fees, the contract requires payment for the salaries and benefits of personnel provided by HealthTech. Total fees paid to HealthTech during the years ended September 30, 2014 and 2013, were approximately $686,000 and $819,000, respectively. The current contract expires September 30, 2017.

Note 13: Significant Estimates and Contingencies

Litigation

In the normal course of business, the Medical Center is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Medical Center's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Medical Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Self-insured Employee Health Care

Estimates related to the accrual for self-insured employee health claims are discussed in *Note 8*.

Note 14: Related Party Transactions

The Medical Center leases office space to New Iberia Surgery Center and Acadiana Diagnostic Imaging, LLC under operating leases with expiration dates of November 30, 2016 and May 31, 2017, respectively. Both leases have renewal options upon expiration. Amounts received under the lease agreements for the years ended September 30, 2014 and 2013, totaled $72,000 and $64,000, respectively.

The Iberia Parish Council, by a resolution adopted in November 2006, provides the Medical Center use of a building in Jeanerette, LA, for the purpose of providing rural health clinic services. The resolution expires October 31, 2015. Rent expense recorded for the years ended September 30, 2014 and 2013 totaled $600 and $3,100.

The Medical Center purchased diagnostic imaging services from Acadiana Diagnostic Imaging, LLC during 2014 and 2013 totaling $71,800 and $88,000, respectively.

Note 15: Health Care Reform

The *Patient Protection and Affordable Care Act* (PPACA) has substantially reformed the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. The legislation has established health insurance exchanges, which provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is possible that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. The reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, have decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Louisiana has currently indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Medical Center's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is reasonably possible that it will have a negative impact on the Medical Center's net patient service revenue. Additionally, it is possible that the Medical Center will experience payment delays and other operational challenges during PPACA's implementation.

Note 16: Future Change in Accounting Principle

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. In addition to making changes to how annual pension expense is to be calculated for defined benefit pension plans, the standard also requires that governmental entities record a liability in their financial statements that is equal to the unfunded pension obligation. Historically, governmental entities have only been required to record a liability for the difference between Annual Pension Cost (APC) and the amount of APC contributed to the plan. This standard is effective for the Medical Center's fiscal year ending September 30, 2015. Management is currently evaluating the impact of adoption of this standard.

Other Information

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Schedule of Insurance Policies
September 30, 2014

Covered Risks	Insurer	Coverage Description	Coverage Amount	Expiration Date
Malpractice and General Liability	Louisiana Hospital Association	Professional Liability	$ 1,500,000	11/1/2014
		Umbrella	4,500,000	11/1/2014
		General Liability	2,000,000	11/1/2014
Louisiana Patient Compensation	Louisiana Hospital Association	Louisiana Patient Compensation	500,000	11/1/2014
Professional Liability	Louisiana Hospital Association	Physicians and Surgeons	300,000	11/1/2014
Workers' Compensation	Louisiana Hospital Association	Coverage A	Statutory	1/1/2015
		Coverage B	1,000,000	1/1/2015
Directors, Officers and Employment Practices	Regions/Traveler's	Liability	3,000,000	1/10/2015
Property	Schwing/C N A	Property Damage	115,000,000	7/1/2015
Crime	Schwing/Traveler's	Crime	250,000	7/1/2015
Auto	Liberty Mutual	Liability	1,000,000	12/1/2014
		Uninsured Motorists	1,000,000	12/1/2014

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Schedule of Board Members
September 30, 2014

Name	Office	Residence
James B. Falterman, Jr., M.D.	Chairman	New Iberia, Louisiana
Mr. David W. Groner	Vice-Chairman	New Iberia, Louisiana
Ms. Catherine DeBlanc Reaves	Member	New Iberia, Louisiana
Larry Nelson, M.D.	Member	New Iberia, Louisiana
Mr. Ernest Wilson	Member	New Iberia, Louisiana
Mr. Burton Cestia, Jr.	Member	New Iberia, Louisiana
Mr. Larry Hensgens, Jr.	Member	New Iberia, Louisiana
Mr. Frederick Metz, Jr.	Member	New Iberia, Louisiana
Mr. Leonard Minvielle	Member	New Iberia, Louisiana

BKD LLP
CPAs & Advisors

14241 Dallas Parkway, Suite 1100 // Dallas, TX 75254-2961
972.702.8262 // fax 972.702.0673 // bkd.com

Independent Auditor's 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*

Board of Commissioners
Hospital Service District No. 1
A component unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
New Iberia, Louisiana

We have audited, 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, the basic financial statements of Hospital Service District No. 1, a component unit of Iberia Parish, State of Louisiana (d/b/a Iberia Medical Center) (Medical Center), which comprise the statement of financial position as of September 30, 2014 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated February 27, 2015.

Internal Control Over Financial Reporting

Management of the Medical Center is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Medical Center's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center'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 Medical Center'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's 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*.

We noted certain matters that we reported to the Medical Center's management in a separate letter dated February 27, 2015.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Dallas, Texas
February 27, 2015

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Schedule of Findings and Responses
Year Ended September 30, 2014

Reference Number	Finding

No matters are reportable.

Hospital Service District No. 1
A Component Unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
Summary Schedule of Prior Year Audit Findings
Year Ended September 30, 2014

Reference Number	Finding

No matters are reportable.

BKD LLP
CPAs & Advisors

14241 Dallas Parkway, Suite 1100 // Dallas, TX 75254-2961
972.702.8262 // fax 972.702.0673 // bkd.com

Board of Commissioners
Hospital Service District No. 1
A component unit of Iberia Parish, State of Louisiana
(d/b/a Iberia Medical Center)
New Iberia, Louisiana

In planning and performing our audit of the financial statements of Hospital Service District No. 1, a component unit of Iberia Parish, State of Louisiana, (d/b/a Iberia Medical Center) (Medical Center) as of and for the year ended September 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Medical Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified.

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 of the Medical Center's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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 Medical Center's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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.

We observed the following matters that we consider to be deficiencies.

Deficiencies

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed included:

Proposed Audit Adjustment Recorded

- Recording of a capital lease

The net impact of the entry recorded was a decrease in net position of approximately $8,000.

Proposed Audit Adjustment Recorded

- Write off of voided outstanding checks
- Increase capitalized interest
- Increase depreciation expense to reflect the time assets transferred from construction in progress and placed into use
- Increase net accounts receivable consistent with expected collections
- Reduce the accrual for Medicare RAC Audits

The net impact of all proposed audit adjusting entries not recorded, including proposed audit adjusting entries not detailed above, was an increase in net position of approximately $102,000.

We recommend management review the causes of these differences to ensure future adjustments are not required and that any future differences for unrecorded items do not become material in future periods.

This communication is intended solely for the information and use of management, the Board of Commissioners and others within the Medical Center, and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

February 27, 2015

Iberia
MEDICAL CENTER

2315 East Main Street P. O. Box 13338
New Iberia, LA 70562-3338
phone: 337.364.0441
www.iberiamedicalcenter.com

March 27, 2015

Office of Legislative Auditor
Attention: Mr. Thomas H. Cole
1600 North Third
P.O. Box 94397
Baton Rouge, LA 70804-9397

Re: Hospital Service District No. 1 of Iberia Parish, d/b/a Iberia Medical Center
September 30, 2014 Financial Statement Audit Comments Action Plan

Dear Mr. Cole:

Please find attached our corrective action plan for Management Letter deficiencies that were a component of our September 30, 2014 financial statement audit. Our response includes a brief summary of the deficiencies, the Medical Center personnel that are responsible for implementing corrective action, the actions we intend to take, the date by which those will happen and specific steps/procedures that we will complete.

Should you have any question, please contact me.

Sincerely,

Stephanie Kirk

Stephanie Kirk
Chief Financial Officer

Hospital Service District No. 1 d/b/a Iberia Medical Center
Corrective Action Plan

Finding Description	Responsible Personnel	Corrective Action Taken or To Be Taken	Date Corrective Action Will be Completed	Specific Steps/Procedures
13-1 Information Technology (IT) - Back-up tapes to be stored off-site and receipt of email for terminated employees.	Vance Robinson, IT Director Stephanie Kirk, CFO	Ensure that IT staff sends monthly backup tape to CPSI for verification each month.	Ongoing	IT staff will set reminder on IT calendar to send tape off to CPSI each month. Verification Letter is kept by IT Manager to validate the process month to month.
13-2 Collateralization of Deposits and Investments - Periodic review of collateral amounts to ensure that all deposits are fully secured by collateral or assets of the bank.	Amy Legendre, Controller Stephanie Kirk, CFO	Ensure that all deposits are properly secured by the financial institution that holds the accounts.	Ongoing	Controller will review the balances of the collateral amounts each month when reconciling the investment accounts.
13-3 Audit Adjustments - Review the causes of passed audit adjustments to ensure unrecorded items do not become material in future periods.	Amy Legendre, Controller Stephanie Kirk, CFO	Review audit passed adjustments to ensure that unrecorded items do not become material.	Ongoing	Controller will review the passed audit adjustments and incorporate any necessary calculations into the monthly process to ensure that all items are properly recorded in future periods.
14-1 Audit Adjustments - Review the causes of passed audit adjustments to ensure unrecorded items do not become material in future periods.	Amy Legendre, Controller Stephanie Kirk, CFO	Review audit passed adjustments to ensure that unrecorded items do not become material.	Ongoing	Controller will review the passed audit adjustments and incorporate any necessary calculations into the monthly process to ensure that all items are properly recorded in future periods.