



Financial Statements

September 30, 2021 and 2020

Hospital Service District No. 3

**A Component Unit of Lafourche Parish,
State of Louisiana**

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
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September 30, 2021 and 2020

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Independent Auditor's Report

Board of Commissioners
Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Thibodaux, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements the Hospital Service District No. 3 (District), a Component Unit of Lafourche Parish, State of Louisiana, which comprise the statement of net position as of September 30, 2021 and the related statements of revenues, expenses, and changes in net position and statement of cash flows for the year then ended and related notes to the financial statements, which collectively comprise the District's basic 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 District'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 District'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, a Component Unit of Lafourche Parish, State of Louisiana, as of September 30, 2021, and results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the District as of September 30, 2020, were audited by other auditors, whose report dated March 31, 2021, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a 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 audit 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Compensation, Reimbursements, Benefits and Other Payments to the Agency Head as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The Schedule of Compensation, Reimbursements, Benefits and Other Payments to the Agency Head 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. Such information has been subjected to the auditing procedures applied in the audits of 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 Compensation, Reimbursements, Benefits and Other Payments to the Agency Head 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 March 28, 2022 on our consideration of the District'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 solely 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 effectiveness of the District's 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 District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
March 28, 2022

Introduction

The discussion and analysis of the financial performance for Hospital Service District No. 3 (District), a Component Unit of Lafourche Parish, State of Louisiana provides an overview of the District's financial activities and balances as of and for the fiscal years ended September 30, 2021, 2020 and 2019. The intent of this discussion and analysis is to provide further information on the District's performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding their understanding of the District's financial status.

Financial Highlights

Through September 30, 2019, the District operated a regional medical center. Effective October 1, 2019, the District began leasing all hospital buildings and equipment to Thibodaux Regional Health Systems Inc. (TRHS) in exchange for a note receivable. Due to this transition, the District did not provide healthcare related services or incur expenses related to the delivery of health care services to patients during the years ended September 30, 2021 and 2020. The only activity of the District for years ended September 2021 and 2020 is the continued development of the cancer center and leasing the hospital buildings and equipment to TRHS.

- Total assets decreased in 2021 by approximately \$39,083,000 or 7% and increased in 2020 by approximately \$146,779,000 or 38%.
- Total liabilities increased in 2021 by approximately \$792,000 or 28% and decreased in 2020 by approximately \$18,866,000 or 87%.
- The District's net position decreased in 2021 by approximately \$5,517,000 or 2% and decreased in 2020 by approximately \$7,379,000 or 2%.

Using This Annual Report

The District's financial statements consist of three statements – Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows. These financial statements and related notes provide information about activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, or enabling legislation. The District 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 Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the District's finances is "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. 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 District's net position and changes in it. You can think of the District's net position - the difference between assets and liabilities - as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the District.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing 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 balance during the reporting period?"

The District's Net Position

The District's net position is the difference between its assets and liabilities and deferred inflows of resources reported in the Statement of Net Position. The District's net position decreased by approximately \$5,517,000 or 2% in 2021 and decreased by approximately \$7,379,000 or 2% in 2020 as shown below in Table 1.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Management's Discussion and Analysis

Table 1: Assets, Liabilities, Deferred Inflows, and Net Position

	2021	2020 (In Thousands)	2019
Assets			
Cash and investments, noncurrent	\$ 78	\$ 70	\$ 19,129
Patient accounts receivable, net	-	-	22,283
Interest receivable	12,513	6,118	-
Due from Thibodaux Regional Health System, Inc.	10,000	-	-
Other current assets	-	-	7,549
Cash and investments, noncurrent	6,791	37,293	155,503
Capital assets, net	193,497	184,123	180,695
Note receivable	133,095	133,095	-
Lease receivable	139,029	173,387	-
Other noncurrent assets	-	-	2,148
Total assets	\$ 495,003	\$ 534,086	\$ 387,307
Liabilities			
Current liabilities	\$ 3,660	\$ 2,868	\$ 18,219
Other postemployment benefits liability	-	-	3,515
Total liabilities	3,660	2,868	21,734
Deferred Inflows of Resources	139,029	173,387	363
Net Position			
Net investment in capital assets	193,497	181,258	179,841
Unrestricted	158,817	176,573	185,369
Total net position	352,314	357,831	365,210
Total liabilities, deferred inflows of resources and net position	\$ 495,003	\$ 534,086	\$ 387,307

Assets, Liabilities, Deferred Inflows, and Net Position

A significant component of the change in the District's assets, liabilities, and net position is the change in interest receivable, due from TRHS, noncurrent cash and investments, lease receivable and deferred inflows, as discussed below:

- Interest receivable increased in 2021 by approximately \$6,395,000 or 105% and increased in 2020 by approximately \$6,118,000 or 100%.
- Due from TRHS increased in 2021 by approximately \$10,000,000 or 100% due to amounts provided to THRS during 2021.
- Noncurrent cash and investments decreased in 2021 by approximately \$30,502,000 or 82% due to the purchase of capital assets and amounts transferred THRS and decreased in 2020 by approximately \$118,210,000 or 76%.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Management's Discussion and Analysis

- Lease receivable and deferred inflows decreased in 2021 by approximately \$34,358,000 or 20% and increased in 2020 by approximately \$173,387,000 or 100%. The change is due to the recognition of a lease receivable and deferred inflow of resources associated with the lease entered into effective October 1, 2019 with TRHS.

Table 2: Operating Results and Changes in Net Position

	2021	2020 (In Thousands)	2019
Operating Revenues			
Net patient service revenue	\$ -	\$ -	\$ 184,524
Rent revenue, net of credits	-	-	-
Other operating revenue	-	-	6,492
	<u>-</u>	<u>-</u>	<u>6,492</u>
Total operating revenue	<u>-</u>	<u>-</u>	<u>191,016</u>
Operating Expenses			
Salaries, wages, and employee benefits	-	-	86,478
Supplies and other	-	-	82,613
Depreciation and amortization	11,903	12,806	16,148
	<u>11,903</u>	<u>12,806</u>	<u>16,148</u>
Total operating expenses	<u>11,903</u>	<u>12,806</u>	<u>185,239</u>
Operating Income (Loss)	<u>(11,903)</u>	<u>(12,806)</u>	<u>5,777</u>
Nonoperating expense, net	<u>6,386</u>	<u>6,281</u>	<u>6,777</u>
Loss on Disposal of Operations	<u>-</u>	<u>(854)</u>	<u>-</u>
Increase (Decrease) in Net Position	(5,517)	(7,379)	12,554
Net Position, Beginning of Year	<u>357,831</u>	<u>365,210</u>	<u>352,656</u>
Net Position, End of Year	<u>\$ 352,314</u>	<u>\$ 357,831</u>	<u>\$ 365,210</u>

Operating Results

As the District transferred all hospital operations to TRHS effective October 1, 2019, the only operating expenses incurred were those associated with the depreciation of the buildings and equipment being leased to TRHS.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses prior to October 1, 2019, consisted primarily of investment income, contributions and income from joint ventures. In 2020, nonoperating revenues and expenses consist primarily of interest income associated with the note receivable entered into with TRHS in exchange for the transfer of hospital operations and working capital. The interest income increased by approximately \$94,000 or 1% in 2021 and increased by approximately \$6,326,000 in 2020 or 100%.

The District's Cash Flows

Changes in the District's operating, noncapital and financing and capital and related financing cash flows are consistent with changes in operating income (loss) and nonoperating revenues and expenses for 2021 and 2020, discussed earlier.

Capital Assets

The District had approximately \$193,497,000 invested in capital assets at the end of 2021 and approximately \$184,123,000 at the end of 2020, net of accumulated depreciation, as detailed in Note 3 to the financial statements. The District purchased new capital assets totaling approximately \$21,310,000 in 2021 and approximately \$20,449,000 in 2020.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the District administration by calling 985-447-5500.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Statements of Net Position
September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 77,910	\$ 69,883
Interest receivable	12,512,828	6,117,489
Due from Thibodaux Regional Health System, Inc.	<u>10,000,000</u>	<u>-</u>
Total current assets	<u>22,590,738</u>	<u>6,187,372</u>
Noncurrent Cash		
Internally designated for capital improvements	<u>6,790,811</u>	<u>37,292,653</u>
Capital Assets, Net	193,497,309	184,123,366
Note Receivable	133,095,297	133,095,297
Lease Receivable	<u>139,028,516</u>	<u>173,386,983</u>
Total assets	<u>\$ 495,002,671</u>	<u>\$ 534,085,671</u>
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	<u>\$ 3,660,052</u>	<u>\$ 2,867,945</u>
Total liabilities	<u>3,660,052</u>	<u>2,867,945</u>
Deferred Inflows of Resources	<u>139,028,516</u>	<u>173,386,983</u>
Net Position		
Net investment in capital assets	189,840,489	181,258,049
Unrestricted	<u>162,473,614</u>	<u>176,572,694</u>
Total net position	<u>352,314,103</u>	<u>357,830,743</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 495,002,671</u>	<u>\$ 534,085,671</u>

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Lease revenue, net of credits	\$ -	\$ -
Operating Expenses		
Depreciation	<u>11,902,912</u>	<u>12,806,448</u>
Operating Loss	<u>(11,902,912)</u>	<u>(12,806,448)</u>
Nonoperating Revenues (Expenses)		
Interest income	6,420,139	6,325,779
Loss on disposal of capital assets	<u>(33,867)</u>	<u>(44,787)</u>
Net nonoperating revenues	<u>6,386,272</u>	<u>6,280,992</u>
Expenses in Excess of Revenues Before Special Item	(5,516,640)	(6,525,456)
Special Item - Loss on Disposal of Operations	<u>-</u>	<u>(853,879)</u>
Change in Net Position	(5,516,640)	(7,379,335)
Net Position, Beginning of Year	<u>357,830,743</u>	<u>365,210,078</u>
Net Position, End of Year	<u>\$ 352,314,103</u>	<u>\$ 357,830,743</u>

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Noncapital and Financing Activities		
Cash paid on disposal of operations	\$ -	\$ (24,576,676)
Cash paid to Thibodaux Regional Health System, Inc.	<u>(10,000,000)</u>	<u>-</u>
Net Cash used for Noncapital and Financing Activities	<u>(10,000,000)</u>	<u>(24,576,676)</u>
Net Cash used for Capital and Capital Related Financing Activities		
Purchase of capital assets	<u>(20,518,615)</u>	<u>(17,581,390)</u>
Net Cash from Investing Activities		
Investment income	<u>24,800</u>	<u>208,290</u>
Net Change in Cash and Cash Equivalents	(30,493,815)	(41,949,776)
Cash and Cash Equivalents, Beginning of Year	<u>37,362,536</u>	<u>79,312,312</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,868,721</u>	<u>\$ 37,362,536</u>
Reconciliation of Cash and Cash Equivalents to the Schedule of Net Position		
Cash and cash equivalents	\$ 77,910	\$ 69,883
Internally designated for capital improvements	<u>6,790,811</u>	<u>37,292,653</u>
Total cash and cash equivalents	<u>\$ 6,868,721</u>	<u>\$ 37,362,536</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (11,902,912)	\$ (12,806,448)
Depreciation	<u>11,902,912</u>	<u>12,806,448</u>
Net Cash from Operating Activities	<u>\$ -</u>	<u>\$ -</u>
Supplemental Disclosure of Noncash Information		
Capital asset additions in accounts payable	<u>\$ 3,656,820</u>	<u>\$ 2,865,317</u>
Lease receivable obtained for leasing capital assets	<u>\$ -</u>	<u>\$ 193,502,248</u>
Non-cash lease receivable forgiveness	<u>\$ 34,358,467</u>	<u>\$ 20,115,265</u>

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of the Hospital Service District No. 3 (District), a Component Unit of Lafourche Parish, State of Louisiana have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the District are described below.

Reporting Entity

Through September 30, 2019, the District, also known as Thibodaux Regional Medical Center, operated a regional medical center located in Thibodaux, Louisiana that primarily earned revenues by providing inpatient, outpatient and emergency care services to patients in the Lafourche Parish (Parish) area. The Parish appoints a five-member board of commissioners who operate the District. Effective October 1, 2019, the District transferred the hospital operations to Thibodaux Regional Health System, Inc. (TRHS) as described in Note 4.

For financial reporting purposes, the District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that the exclusion would cause the District's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the District's assets, deferred inflows, and liabilities with the difference reported as net position. Net position is reported in the following components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets.

Restricted net position:

Restricted - expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation. The District had no restricted, expendable net position at September 30, 2021 and 2020.

Restricted – nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the District. The District had no restricted, nonexpendable net position at September 30, 2021 and 2020.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect 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 highly liquid investments with an original maturity of three months or less, excluding internally designated and externally restricted cash equivalents. For purposes of the statement of cash flows, the District considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Capital Assets

Capital asset acquisitions in excess of \$500 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of capital assets are as follows:

Land improvements	10-25 years
Buildings and improvements	10-40 years
Equipment	2-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from expenses in excess of revenues. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Operating Revenues and Expenses

The District’s statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. As the District transferred all hospital operations to TRHS effective October 1, 2019, operating revenues consist of lease revenue related to the buildings and equipment being leased to TRHS and operating expenses consist of the depreciation associated with the leased property.

Deferred Inflows of Resources

Deferred inflows of resources represent an increase in net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The deferred inflows of resources reported in the financial statements are deferred lease revenue.

Income Tax

As an essential government function of the Parish, the District 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 District is subject to federal income tax on any unrelated business taxable income.

Note 2 - Deposits

The carrying amounts of the District’s deposits at September 30, 2021 and 2020 are as follows:

	2021	2020
Cash deposits	\$ 6,868,721	\$ 37,362,536

Deposits are reported in the following statement of net position captions:

	2021	2020
Cash and cash equivalents	\$ 77,910	\$ 69,883
Board designated for capital expenditures	6,790,811	37,292,653
	\$ 6,868,721	\$ 37,362,536

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Notes to Financial Statements
September 30, 2021 and 2020

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District'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, 2021 and 2020, the District's deposits were either insured or collateralized.

Note 3 - Capital Assets

Capital assets additions, disposals, transfers and balances for the years ended September 30, 2021 and 2020 are as follows:

	Balance September 30 2020	Additions	Disposal	Transfers	Balance September 30 2021
Capital assets not being depreciated					
Land	\$ 7,936,002	\$ -	\$ -	\$ -	\$ 7,936,002
Construction in progress	<u>24,927,994</u>	<u>21,115,692</u>	<u>-</u>	<u>-</u>	<u>46,043,686</u>
Total capital assets not being depreciated	<u>\$ 32,863,996</u>	<u>\$ 21,115,692</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,979,688</u>
Capital assets being depreciated					
Land improvements	\$ 6,668,258	\$ -	\$ -	\$ -	\$ 6,668,258
Building and improvements	226,693,434	-	-	-	226,693,434
Equipment	<u>89,338,073</u>	<u>194,426</u>	<u>(928,824)</u>	<u>-</u>	<u>88,603,675</u>
Total capital assets being depreciated	<u>322,699,765</u>	<u>\$ 194,426</u>	<u>\$ (928,824)</u>	<u>\$ -</u>	<u>321,965,367</u>
Total accumulated depreciation	<u>(171,440,395)</u>	<u>\$ (11,902,912)</u>	<u>\$ 894,957</u>	<u>\$ -</u>	<u>(182,447,746)</u>
Net capital assets being depreciated	<u>\$ 151,259,370</u>				<u>\$ 139,517,621</u>
Capital assets, net	<u>\$ 184,123,366</u>				<u>\$ 193,497,309</u>

As of September 30, 2021, the District had construction commitments outstanding of \$3,657,000 related to a construction project. Construction in progress at September 30, 2021, represents construction of a cancer center. The estimated cost to complete the project is \$2,617,000 which will be funded with internal funds and expected to be completed in December 2021.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Notes to Financial Statements
September 30, 2021 and 2020

	Balance September 30 2019	Additions	Disposals	Transfers	Balance September 30 2020
Capital assets not being depreciated					
Land	\$ 7,936,002	\$ -	\$ -	\$ -	\$ 7,936,002
Construction in progress	<u>7,694,202</u>	<u>20,416,479</u>	<u>(1,696,556)</u>	<u>(1,486,131)</u>	<u>24,927,994</u>
Total capital assets not being depreciated	<u>\$ 15,630,204</u>	<u>\$ 20,416,479</u>	<u>\$ (1,696,556)</u>	<u>\$ (1,486,131)</u>	<u>\$ 32,863,996</u>
Capital assets being depreciated					
Land improvements	\$ 6,351,731	\$ 11,320	\$ -	\$ 305,207	\$ 6,668,258
Building and improvements	225,490,974	21,536	-	1,180,924	226,693,434
Equipment	<u>104,642,921</u>	<u>-</u>	<u>(15,304,848)</u>	<u>-</u>	<u>89,338,073</u>
Total capital assets being depreciated	<u>336,485,626</u>	<u>\$ 32,856</u>	<u>\$ (15,304,848)</u>	<u>\$ 1,486,131</u>	<u>322,699,765</u>
Total accumulated depreciation	<u>(171,420,682)</u>	<u>\$ (12,806,448)</u>	<u>\$ 12,786,735</u>	<u>\$ -</u>	<u>(171,440,395)</u>
Net capital assets being depreciated	<u>\$ 165,064,944</u>				<u>\$ 151,259,370</u>
Capital assets, net	<u>\$ 180,695,148</u>				<u>\$ 184,123,366</u>

Note 4 - Hospital Transition and Lease Agreement

On October 1, 2019, the District entered into certain lease and operating agreements as part of a transfer of the responsibility of the management and operation of the hospital operations from the District to TRHS, a non-profit organization formed in November 2018.

Effective October 1, 2019, the District began leasing all hospital buildings and equipment and transferred working capital and hospital operations to TRHS in exchange for a note receivable due from TRHS of approximately \$133,095,000 due at the end of the initial term of the lease. The note receivable is further described at Note 6. The hospital transition agreement provides that the District retains certain powers incident to its purpose as a hospital service district; that TRHS shall at all times operate the facilities in conformity with the standard performance of the Joint Commission for the Accreditation of Healthcare Organizations; and that TRHS shall operate the hospital to provide healthcare services at a level of such services comparable to that of the District prior to the transition. TRHS will provide substantially all of the management and direction of the hospital operations, subject only to the District's constitutional and statutory duties to provide or cause to provide medical and hospital care to the Parish's needy inhabitants.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Notes to Financial Statements
September 30, 2021 and 2020

The District has accounted for the disposal of operations in accordance with GASB 69, *Government Combinations and Disposals of Government Operations*. The disposal was accomplished by TRHS acquiring certain licenses, contracts and the working capital of the District in exchange for the note receivable. The term of the lease between the District and TRHS is 30 years with two successive options to renew the lease for a period of 10 additional years. At the end of each lease year, TRHS is subject to pay rent of \$10,450,000 per year, with stated escalations throughout the term of the lease. In addition, TRHS is entitled to specific credits against the rent due that are identified in the lease, primarily related to capital expenditures and other expenses as defined in the lease agreement. Upon the end of the lease term or any extensions thereof, all of the remaining assets of TRHS shall be transferred, assigned and conveyed back to the District. The lease receivable is further described at Note 5.

The following table summarizes the amounts of the assets and liabilities disposed of, net of consideration received on October 1, 2019:

	2021	2020
Assets		
Cash	\$ -	\$ 18,937,742
Short-term investments	-	125,000
Patient accounts receivable	-	22,282,723
Other receivables	-	828,924
Supplies	-	3,119,379
Prepaid expenses and other assets	-	3,601,091
Noncurrent cash and investments designated by board for capital improvements	-	100,834,072
Capital assets, net	-	4,169,882
Other assets	-	2,147,233
Total assets contributed at date of disposal	-	156,046,046
Liabilities		
Accounts payable and accrued expenses	-	(15,985,847)
Estimated amounts due to third party payers	-	(2,233,746)
Other post employment liabilities	-	(3,877,277)
Total liabilities contributed at date of disposal	-	(22,096,870)
Consideration Received		
Note receivable from TRHS	-	133,095,297
Loss on Disposal of Operations	\$ -	\$ (853,879)

Note 5 - Lease Receivable

Effective October 1, 2019, the District leases all of its hospital buildings and equipment to TRHS pursuant to the hospital transition and lease agreements. The lease has an initial term of 30 years with two successive 10-year renewals if both parties agree to the terms. The initial payments under the lease are \$10,450,000 per year, subject to certain rent credits, and are due at the end of each lease year. Payments increase every 3 to 5 years based upon stated percent increases ranging from 3.0% to 7.5% within the lease agreement.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Notes to Financial Statements
September 30, 2021 and 2020

The leases were measured based upon the stated rent increases defined in the lease agreement at lease commencement. Rent credits not yet earned by the lessee are variable payments that were not considered in the measurement of the leases as they are dependent upon future performance by TRHS and therefore are recognized in the period in which they are earned. Pursuant to the lease agreement, rent credits that exceed total rent due in a current year may be applied against future rent or from time to time against the note and interest receivable.

The following is a schedule of amounts due under the lease and the anticipated application of rent credits to reduction of future year's lease amounts based on credits earned through September 30, 2021.

<u>Years Ending September 30,</u>	<u>Gross Lease Receivable</u>	<u>Imputed Interest</u>	<u>Lease Receivable</u>	<u>Rent Credits</u>	<u>Lease Receivable, Net Of Credits</u>
2022	\$ 10,450,000	\$ 8,443,524	\$ 2,006,476	\$ (2,006,476)	\$ -
2023	10,463,500	8,354,235	2,109,265	(2,109,265)	-
2024	10,463,500	8,260,373	2,203,127	(2,203,127)	-
2025	11,101,000	8,162,334	2,983,665	(2,983,665)	-
2026	11,114,905	8,031,563	3,083,342	(3,083,342)	-
2027-2031	56,988,116	37,940,985	19,047,131	(19,047,131)	-
2032-2036	60,650,268	32,975,269	27,674,999	(19,280,584)	8,394,415
2037-2041	64,568,633	25,888,703	38,679,930	-	38,679,930
2042-2046	68,777,188	16,097,780	52,679,408	-	52,679,408
2047-2049	42,869,992	3,595,229	39,274,763	-	39,274,763
Total	<u>\$ 347,447,102</u>	<u>\$ 157,749,995</u>	<u>\$ 189,742,106</u>	<u>\$ (50,713,590)</u>	<u>\$ 139,028,516</u>

During the years ended September 30, 2021 and 2020, no revenue was recognized under the lease with TRHS as total rent credits exceeded the rent due. Through September 30, 2021, total cumulative rent credits earned by TRHS totaled approximately \$80,754,000 and have been applied as a reduction in lease receivable and deferred inflows of resources in the amounts of \$14,979,083 and \$15,060,925 for the years ended September 30, 2021 and 2020, with the remaining amount of \$50,713,590 to be applied against future rent. Due to the rent credits earned by TRHS as of the year ended September 30, 2021, rent will not be due by TRHS until the year ended September 30, 2035.

During 2021, the district transferred \$10,000,000 to TRHS for facility expansion as part of the lease. The amount is included as due from Thibodaux Regional Health System, Inc. on the statements of net position.

Note 6 - Note and Interest Receivable

On October 1, 2019, the District transferred all working capital and operations of the hospital to TRHS in exchange for a note receivable of approximately \$133,095,000. The note receivable bears interest at 4.45%. Interest payments are due annually and the unpaid principal balance shall be due in full at the end of the lease. As of September 30, 2021, amounts due under the note receivable and interest receivable totaled \$133,095,297 and \$12,512,828 and are included in the accompanying statement of net position. As of September 30, 2020, amounts due under the note receivable and interest receivable totaled \$133,095,297 and \$6,117,489 and are included in the accompanying statement of net position.

Note 7 - Risk Management

Through September 30, 2019, the District was self-insured for a portion of its exposure to risk of loss from employee health, workers' compensation and medical malpractice claims. All risk of loss for reported or unreported claims through September 30, 2019 have been transferred to TRHS. As of October 1, 2019, the District does not have employees.



Supplementary Information
September 30, 2021 and 2020

Hospital Service District No. 3
A Component Unit of Lafourche Parish,
State of Louisiana

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Schedule of Compensation, Reimbursements, Benefits and Other Payments to the Agency Head
Year Ended September 30, 2021

Agency Head Name: Jody Plaisance, Board of Commissioners Chairman

Note: Effective October 1, 2019, Hospital Service District No. 3 (District), a Component Unit of Lafourche Parish, State of Louisiana has no employees. The governing body of the District is the Board of Commissioners of the District. Jody Plaisance is the Chairman of the District Board of Commissioners. The District did not make any payments to or on behalf of the Chairman or any other members of the Board of Commissioners.



**Independent Auditor’s Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Commissioners
Hospital Service District No. 3,
A Component Unit of Lafourche Parish, State of Louisiana
Thibodaux, 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 financial statements of the Hospital Service District No. 3 (District), a Component Unit of Lafourche Parish, State of Louisiana, as of and for the year then ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements and have issued our report thereon dated March 28, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District’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 identify any deficiencies in internal control 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 District's financial statements are free from 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 financial statements. 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 the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Oklahoma City, Oklahoma

March 28, 2022