
**HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH,
STATE OF LOUISIANA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AND CONSOLIDATED FINANCIAL STATEMENTS**

MARCH 31, 2019



Postlethwaite & Netterville

A Professional Accounting Corporation

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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Hospital Service District No. 1 of Terrebonne Parish,
State of Louisiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana (the District), a component unit of the Terrebonne Parish Consolidated Government, as of and for the years ended March 31, 2019 and 2018, and the related notes to the consolidated financial statements, which collectively comprise the District's basic consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to previously present fairly, in all material respects, the financial position of the District as of March 31, 2019 and 2018, 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 management's discussion and analysis presented on pages 3 through 17, be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with accounting 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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.

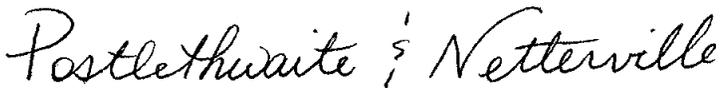
Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The other supplemental information on pages 40 through 46 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements.

The other supplemental information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated, in all material respects, in relation to the basic consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2019, 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 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 the District's internal control over financial reporting and compliance.



Baton Rouge, Louisiana
August 21, 2019

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana

Management's Discussion and Analysis

March 31, 2019

This section of the Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana (the District), annual financial report presents background information and management's analysis of the District's financial performance during the fiscal year that ended on March 31, 2019. Please read it in conjunction with the financial statements in this report.

In June 2013, Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana became the sole member of Southern Regional Medical Corporation (SRMC). SRMC entered into a Cooperative Endeavor Agreement (CEA) with the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (LSU), the Louisiana Division of Administration (DOA) and the State of Louisiana through the Division of Administration (the "State" and the Louisiana Department of Health & Hospitals) (DHH) to which the District assists SRMC in ensuring the availability of hospital services to low-income and indigent patients in South Central Louisiana. SRMC entered in an agreement with LSU to take possession, use, and occupancy of Leonard J. Chabert Medical Center (Chabert) and assume responsibility for its operations. SRMC entered into a management agreement with Chabert Management LLC (Manager) to provide management, staff and other assistance to SRMC to operate Chabert. The CEA is for an initial term of five years and will automatically renew for an additional five year term unless terminated by either party. The District's financial statements are a consolidation of Terrebonne General Medical Center (TGMC) and Southern Regional Medical Center (SRMC).

Required Consolidated Financial Statements

The Basic Consolidated Financial Statements of the District report information about the District using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities. The Statements of Net Position include all of the District's assets and liabilities and deferred inflows and outflows and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. All of the reporting period's revenues and expenses are accounted for in the Statements of Revenue, Expenses, and Changes in Net Position. This statement measures changes in the District's operations over the past two years and can be used to determine whether the District has been able to recover all of its costs through its net patient service revenue and other revenue sources. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash from operations, investing, and financing activities and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana

Management's Discussion and Analysis

Financial Analysis of the District

The Statements of Net Position and the Statements of Revenue, Expenses, and Changes in Net Position report information about the District's activities. These two statements report the net position of the District and changes in them. Increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in the health care industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

Financial Highlights for the Year Ended March 31, 2019

- The District's assets and deferred outflows increased by approximately \$30,744,000 or 8%, primarily due to the cash received for the full Medicaid pricing program ("FMP") between the state of Louisiana and the Federal government.
- During the year, the District's total operating revenues increased by \$18,561,000 or 7% to \$289,684,000 from prior year while operating expenses increased \$10,517,000, or 4%, to \$286,222,000. The District has income from operations of \$3,462,000, which is 1.2% of total operating revenue and represents an increase from the (\$4,582,000) prior year loss from operations. The District has income from operations due to an increase in outpatient revenue. Expenses increased due to salaries, cost of drugs, medical supplies and implants.
- During fiscal year 2019, the District qualified to receive grant funding from eligible supplemental Medicaid payments. The amount of this funding in total operating revenue for the year is \$34,403,000, a decrease of \$5,738,000 from 2018 (includes a decrease of \$1,481,000 or 17.3% from prior year for TGMC only, and a decrease of \$4,257,000 or 13.5% for SRMC only).
- Investment income increased over prior year by \$5,336,000 due to an increase in unrealized gain on investments of \$5,146,000. In the prior year, investments incurred an unrealized loss of (\$2,516,000), and in fiscal year 2019, investments incurred an unrealized gain of \$2,630,000 from market changes.
- During the fiscal year, the District made significant capital acquisitions totaling approximately \$12,198,000 including the following:
 - Continuation of various information technology projects including automated electronic medical record technology and its support systems
 - Upgrade the infrastructure of facilities
 - Various renovation projects of existing buildings
 - Purchase of diagnostic equipment due to improving technology

The source of the funding for these projects was derived from operations and drawing on investments as necessary.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana

Management's Discussion and Analysis

Net Position

A summary of the District's Statements of Net Position is presented in Table 1 below.

Condensed Consolidated Statements of Net Position

TABLE 1

	March 31		Dollar	Percentage
	2019	2018	Change	Change
Current assets	\$100,434	\$71,617	\$28,817	40%
Capital assets, net	147,290	152,343	(5,053)	-3%
Other assets, including board designated and restricted investments	159,228	152,104	7,124	5%
Deferred outflows of resources	653	797	(144)	-18%
Total assets and deferred outflows	<u>\$407,605</u>	<u>\$376,861</u>	<u>\$30,744</u>	8%
Current liabilities	\$70,807	\$43,029	\$27,778	65%
Long-term liabilities	55,665	60,135	(4,470)	-7%
Total liabilities	<u>126,472</u>	<u>103,164</u>	<u>23,308</u>	23%
Net investment in capital assets	87,376	88,222	(846)	-1%
Restricted net position	5,343	5,261	82	2%
Unrestricted net position	188,414	180,214	8,200	5%
Total liabilities and net position	<u>\$407,605</u>	<u>\$376,861</u>	<u>\$30,744</u>	8%

As can be seen in Table 1, total assets and deferred outflows increased by \$30,744,000 to \$407,605,000 at March 31, 2019, up from \$376,861,000 at March 31, 2018. The change in total assets results primarily from the increase in cash, primarily due to the FMP program.

Total current liabilities increased by \$27,778,000 from March 31, 2018 to March 31, 2019, primarily as a result of the FMP program, timing of payments to Chabert Management LLC, and uncompensated care.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana

Management's Discussion and Analysis

Summary of Revenues and Expenses

The following table presents a summary of the District's revenues and expenses for each of the years ended March 31, 2019 and 2018.

TABLE 2
Condensed Consolidated Statements of Revenues, Expenses, and Changes in Net Position

	March 31		Dollar	Percentage
	2019	2018	Change	Change
Net patient service revenue	\$247,843	\$224,716	\$23,127	10%
Other revenue, net	41,841	46,407	(4,566)	-10%
Total operating revenue	289,684	271,123	18,561	7%
Salaries and employee benefits	100,252	87,498	12,754	15%
Supplies and materials	74,272	65,869	8,403	13%
Purchased services	75,039	86,110	(11,071)	-13%
Professional fees	9,287	7,271	2,016	28%
Other operating	10,121	10,777	(656)	-6%
Depreciation	17,251	18,180	(929)	-5%
Total operating expense	286,222	275,705	10,517	4%
Income (loss) from operations	3,462	(4,582)	8,044	176%
Investment income including net unrealized gains (losses) on investments	6,551	1,215	5,336	439%
Interest expense and amortization	(2,133)	(2,277)	144	6%
Other expenses	(444)	(594)	150	25%
Total nonoperating revenues (expenses)	3,974	(1,656)	5,630	340%
Change in net position	7,436	(6,238)	13,674	219%
Net position:				
Beginning of period	273,697	279,935		
End of period	\$281,133	\$273,697		

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana

Management's Discussion and Analysis

Sources of Revenue

Operating Revenue

During fiscal year 2019, the District derived the majority of its operating revenue from patient revenues. Patient revenues include revenues from the Medicare and Medicaid programs and patients, or their third-party insurers, who pay for care in the District's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party insurers is based upon established contracts. The difference between the covered charges and the expected payment is recognized as a contractual allowance.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended March 31, 2019 and 2018.

TABLE 3
Payor Mix

	<u>2019</u>	<u>2018</u>
Medicare	54%	51%
Medicaid	21%	23%
Managed care	22%	22%
Self-pay and other	3%	4%
Total patient revenues	<u>100%</u>	<u>100%</u>

Other Operating Revenue

The District also generated other operating income of \$41,841,000 in fiscal year 2019 and \$46,407,000 in fiscal year 2018. Of this amount, \$34,403,000 in 2019 and \$40,142,000 in 2018 relates to grants from supplemental Medicaid payments. The remaining income does not relate to patient revenues and consists primarily of rental and retail income, reference lab income, cafeteria income, and other departmental income. Rental, retail, reference lab and cafeteria income account for \$4,238,000 and \$4,322,000 in fiscal years 2019 and 2018, respectively.

Non-operating Income

The District holds designated and restricted funds in its statements of net position that are invested primarily in money market funds and securities issued by the U.S. Treasury and its agencies and other federal agencies. These investments earned \$2,829,000 and \$3,061,000 during fiscal year 2019 and 2018, respectively. An unrealized gain (loss) on investments increased investments by \$2,630,000 in fiscal year 2019 and decreased investments by (\$2,516,000) during fiscal year 2018.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana

Management's Discussion and Analysis

Operating and Financial Performance

The following summarizes the District's Statements of Revenues, Expenses, and Changes in Net Position between 2019 and 2018:

Overall activity at the District, as measured by patient discharges, decreased by 2.5% to 11,206 in 2019 compared to 11,496 in 2018. Patient days decreased by 3.7% from the prior year from 56,011 in 2018 to 53,958 in 2019. As a result, the average length of stay for the District decreased by 2.0% with the stay length at 4.8 days in 2019 compared to 4.9 days in 2018.

Inpatient revenue decreased in fiscal year 2019 due to a decrease in patient days for both SRMC and TGMC while outpatient revenue increased. As a result of increased gross revenue, net patient service revenue increased \$23,127,000, or 10% in 2019. Contractual allowances, excluding bad debt, decreased to 68.9% of charges in 2019 from 69.2% in 2018.

Excluded from net patient service revenue are charges forgone for patient services falling under the District's charity care policy. Based on established rates, gross charges of \$13,184,000 were forgone during 2019 compared to \$12,760,000 in 2018, or a 3.3% increase from the prior fiscal year. Provision for bad debts decreased by \$467,000, or 3.4%, compared to the prior year.

Employee wages and compensation increased by \$12,754,000 from the prior year. Salaries and benefits were 34.6% and 32.3% of total operating revenue in 2019 and 2018, respectively. This increase is primarily due to a change at SRMC. In prior years, employees were provided through the SRMC management agreement. Effective January 1, 2019, employees at the Chabert facility are employees of SRMC.

Professional fees increased over the prior year by 28% or \$2,016,000 as a result of the new contracts initiated for physician initiatives. The cost of supplies and materials increased by \$8,403,000, or 13%, due to increased volume in the catheterization laboratory and oncology areas at TGMC. Purchased services decreased during the year by (\$11,071,000) or (13%) due to SRMC employees no longer being included in the management agreement, but now being SRMC employees as noted in the paragraph above. Other operating expenses decreased by (\$656,000) or (6%) due to SRMC. Depreciation expense decreased by (\$929,000) or (5%) due to aging of assets and replacement occurring in fiscal year 2019. Total operating expenses increased by \$10,517,000, or 4%, for the year ended March 31, 2019.

Non-operating revenue consists of interest earnings on funds designated by the Board of Commissioners and funds held by trustee under bond resolution. The changes in fair value of these investments is also included in this amount. Non-operating revenue increased over the prior year due to an increase in the market value of investments compared to the prior year. Unrealized gains increased from the prior year by \$5,146,000.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana

Management's Discussion and Analysis

Capital Assets

During fiscal year 2019, the District invested in a broad range of capital assets included in Table 4 below.

TABLE 4
Capital Assets

	March 31		Dollar	Percentage
	2019	2018	Change	Change
Land and land improvements	\$23,368	\$22,789	\$579	3%
Building	204,289	199,169	5,120	3%
Equipment	238,685	233,013	5,672	2%
Subtotal	466,342	454,971	11,371	2%
Less accumulated depreciation	322,016	304,794	17,222	6%
Construction-in progress	2,964	2,166	798	37%
Net capital assets	<u>\$147,290</u>	<u>\$152,343</u>	<u>(\$5,053)</u>	-3%

Net capital assets have decreased due to depreciation of current assets and equipment retirements; however the District is continuing to enhance existing facilities and invest in information technology and other facility initiatives. During the fiscal year 2019, the District spent \$5,475,000 of its 2019 capital budget and \$3,935,000 on master facility plan spending. The District also has a strategic plan that incorporates a master facility plan for future expansion. The timing and priorities of the plan are available as a separate document.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana

Management's Discussion and Analysis

In Table 5, the District's fiscal year 2020 capital budget projects spending up to \$8,336,000 for capital projects, of which 64% is for replacement or regulatory/maintenance items. These projects will be financed from operations. The master facility spending plan will be funded from operations and designated investments. More information about the District's capital assets is presented in the notes to basic financial statements.

TABLE 5
Fiscal Year 2020 Capital Budget
(In Thousands)

Master Facility Plan	\$11,640
Contingency	3,000
Routine Capital	5,336
Total	<u>\$19,976</u>

Long-Term Debt and Bond Refunding

At March 31, 2019, the District had \$59,770,000 in short-term and long-term debt, plus a premium of \$330,000, less a discount of \$120,000, for a total debt figure of \$59,980,000. More detailed information about the District's long-term liabilities is presented in the notes to basic consolidated financial statements. Total long term debt outstanding represents 14.7% of the District's total assets and deferred outflows at March 31, 2019.

Contacting the District's Management

This financial report is designed to provide a general overview of the District's finances. Questions concerning information provided in this report may be addressed to the Office of Vice President of Financial Services, 8166 Main St. Houma, La. 70360.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana

Management's Discussion and Analysis

Financial Analysis of the District

Financial Highlights for the Year Ended March 31, 2018

- The District's assets and deferred outflows decreased by approximately \$29,399,000 or 7%, primarily due to the purchase of an electronic medical records system through bond proceeds and cash and depreciation of capital assets.
- During the year, the District's total operating revenues decreased by \$10,012,000 or 4% to \$271,123,000 from prior year while operating expenses decreased \$4,389,000, or 2%, to \$275,705,000. The District has losses from operations of \$4,582,000, which is 1.7% of total operating revenue and represents a decrease from the \$1,041,000 prior year income from operations. The District has losses due to a decline in supplemental Medicaid payments. Net patient service revenue remained consistent. Expenses decreased due to salaries, cost of drugs, medical supplies and implants.
- During fiscal year 2018, the District qualified to receive grant funding from eligible supplemental Medicaid payments. The amount of this funding in total operating revenue for the year is \$40,142,000, a decrease of \$6,983,000 from 2017 (includes a decrease of \$260,000 or 3% from prior year for TGMC only, and a decrease of \$6,723,000 or 18% for SRMC only).
- Investment income increased over prior year by \$519,000 due to a decrease in unrealized loss on investments of \$747,000. In the prior year, investments incurred an unrealized loss of \$3,263,000, and in fiscal year 2018, investments incurred an unrealized loss of \$2,516,000 from market changes.
- During the fiscal year, the District made significant capital acquisitions totaling approximately \$7,000,000 including the following:
 - Continuation of various information technology projects including automated electronic medical record technology and its support systems
 - Upgrade the infrastructure of facilities
 - Various renovation projects of existing buildings
 - Purchase of diagnostic equipment due to improving technology

The source of the funding for these projects was derived from operations and drawing on investments as necessary.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana

Management's Discussion and Analysis

Net Position

A summary of the District's Statements of Net Position is presented in Table 1 below.

Condensed Consolidated Statements of Net Position

TABLE 1

	March 31		Dollar	Percentage
	2018	2017	Change	Change
Current assets	\$71,617	\$71,897	(\$280)	0%
Capital assets, net	152,343	163,478	(11,135)	-7%
Other assets, including board designated and restricted investments	152,104	170,746	(18,642)	-11%
Deferred outflows of resources	797	139	658	473%
Total assets and deferred outflows	<u>\$376,861</u>	<u>\$406,260</u>	<u>(\$29,399)</u>	-7%
Current liabilities	\$43,029	\$62,729	(\$19,700)	-31%
Long-term liabilities	60,135	63,596	(3,461)	-5%
Total liabilities	103,164	126,325	(23,161)	-18%
Net investment in capital assets	88,222	107,439	(19,217)	-18%
Restricted net position	5,261	5,420	(159)	-3%
Unrestricted net position	180,214	167,076	13,138	8%
Total liabilities and net position	<u>\$376,861</u>	<u>\$406,260</u>	<u>(\$29,399)</u>	-7%

As can be seen in Table 1, total assets and deferred outflows decreased by \$29,399,000 to \$376,861,000 at March 31, 2018, down from \$406,260,000 at March 31, 2017. The change in total assets results primarily from the decrease in Investments and Capital, primarily due to decline in volume and depreciation of capital assets during the year.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana

Management's Discussion and Analysis

Summary of Revenues and Expenses

The following table presents a summary of the District's revenues and expenses for each of the years ended March 31, 2018 and 2017.

TABLE 2
Condensed Consolidated Statements of Revenues, Expenses, and Changes in Net Position

	March 31 2018	March 31 2017	Dollar Change	Percentage Change
Net patient service revenue	\$224,716	\$224,929	(\$213)	0%
Other revenue, net	46,407	56,206	(9,799)	-17%
Total operating revenue	271,123	281,135	(10,012)	-4%
Salaries and employee benefits	87,498	89,579	(2,081)	-2%
Supplies and materials	65,869	67,825	(1,956)	-3%
Purchased services	86,110	87,857	(1,747)	-2%
Professional fees	7,271	6,691	580	9%
Other operating	10,777	10,345	432	4%
Depreciation	18,180	17,797	383	2%
Total operating expense	275,705	280,094	(4,389)	-2%
Income (loss) from operations	(4,582)	1,041	(5,623)	-540%
Investment income including net unrealized losses on investments	1,215	696	519	75%
Interest expense and amortization	(2,277)	(2,299)	22	-1%
Loss on disposal of capital assets	-	(704)	704	-100%
Other expenses	(594)	(1,786)	1,192	-67%
Total nonoperating revenues (expenses)	(1,656)	(4,093)	2,437	-60%
Change in net position	(6,238)	(3,052)	(3,186)	-104%
Net position:				
Beginning of period	279,935	282,987		
End of period	\$273,697	\$279,935		

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana

Management's Discussion and Analysis

Sources of Revenue

Operating Revenue

During fiscal year 2018, the District derived the majority of its operating revenue from patient revenues. Patient revenues include revenues from the Medicare and Medicaid programs and patients, or their third-party insurers, who pay for care in the District's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party insurers is based upon established contracts. The difference between the covered charges and the expected payment is recognized as a contractual allowance.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended March 31, 2018 and 2017.

TABLE 3
Payor Mix

	2018	2017
Medicare	51%	50%
Medicaid	23%	21%
Managed care	22%	22%
Self-pay and other	4%	7%
Total patient revenues	100%	100%

Other Operating Revenue

The District also generated other operating income of \$46,407,000 in fiscal year 2018 and \$56,206,000 in fiscal year 2017. Of this amount, \$40,142,000 in 2018 and \$47,125,000 in 2017 relates to grants from supplemental Medicaid payments. Remaining income does not relate to patient revenues and consists primarily of rental and retail income, reference lab income, cafeteria income, and other departmental income. Rental, retail, reference lab and cafeteria income account for \$4,322,000 and \$4,647,000 in fiscal years 2018 and 2017, respectively.

Non-operating Income

The District holds designated and restricted funds in its statements of net position that are invested primarily in money market funds and securities issued by the U.S. Treasury and its agencies and other federal agencies. These investments earned \$3,061,000 and \$3,321,000 during fiscal year 2018 and 2017, respectively. An unrealized loss on investments decreased investments by \$2,516,000 and \$3,263,000 during fiscal year 2018 and 2017, respectively.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana

Management's Discussion and Analysis

Operating and Financial Performance

The following summarizes the District's Statements of Revenues, Expenses, and Changes in Net Position between 2018 and 2017:

Overall activity at the District, as measured by patient discharges, decreased by 6.9% to 11,496 in 2018 compared to 12,346 in 2017. Patient days decreased by 5% from the prior year from 58,939 in 2017 to 56,011 in 2018. As a result, the average length of stay for the District increased by 2.1% with the stay length at 4.9 days in 2018 compared to 4.8 days in 2017.

Inpatient revenue decreased in fiscal year 2018 due to a decrease in patient days for both SRMC and TGMC. As a result of decreased gross revenue, net patient service revenue decreased \$213,000, or 0.1% in 2018. Contractual allowances, excluding bad debt, increased to 69.2% of charges in 2018 from 68.6% in 2017.

Excluded from net patient service revenue are charges forgone for patient services falling under the District's charity care policy. Based on established rates, gross charges of \$12,760,000 were forgone during 2018 compared to \$26,406,000 in 2017, or a 52% decrease from the prior fiscal year. Provision for bad debts decreased by \$365,000, or 2.6% compared to the prior year.

Employee wages and compensation decreased by \$2,081,000 from the prior year. Salaries and benefits were 32.3% and 31.9% of total operating revenue in 2018 and 2017, respectively.

Professional fees increased over the prior year by 9% or \$580,000 as a result of the new contracts initiated for physician initiatives. The cost of supplies and materials decreased by \$1,956,000, or 3%, due to decreased volume in the surgery and radiology areas at TGMC. Purchased services decreased during the year by \$1,747,000 or 2% due to SRMC. Other operating expenses increased by \$432,000 or 4% due to SRMC. Depreciation expense increased by \$383,000 or 2% due to aging of assets and replacement occurring in fiscal year 2018. Total operating expenses decreased by \$4,389,000, or 2%, for the year ended March 31, 2018.

Non-operating revenue consists of interest earnings on funds designated by the Board of Commissioners and funds held by trustee under bond resolution. The changes in fair value of these investments is also included in this amount. Non-operating revenue increased over the prior year due to an increase in the market value of investments compared to the prior year. Unrealized gains increased from the prior year by \$747,000.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana

Management's Discussion and Analysis

Capital Assets

During fiscal year 2018, the District invested in a broad range of capital assets included in Table 4 below.

TABLE 4
Capital Assets

	March 31		Dollar	Percentage
	2018	2017	Change	Change
Land and land improvements	\$22,789	\$22,702	\$87	0%
Building	199,169	195,831	3,338	2%
Equipment	233,013	229,202	3,811	2%
Subtotal	454,971	447,735	7,236	2%
Less accumulated depreciation	304,794	286,621	18,173	6%
Construction-in progress	2,166	2,364	(198)	-8%
Net capital assets	<u>\$152,343</u>	<u>\$163,478</u>	<u>(\$11,135)</u>	<u>-7%</u>

Net capital assets have decreased due to depreciation of current assets and equipment retirements; however the District is continuing to enhance existing facilities and invest in information technology and other facility initiatives. During the fiscal year 2018, the District spent \$3,656,000 of its 2018 capital budget and \$1,623,000 on master facility plan spending. The District also has a strategic plan that incorporates a master facility plan for future expansion. The timing and priorities of the plan are available as a separate document.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana

Management's Discussion and Analysis

In Table 5, the District's fiscal year 2019 capital budget projects spending up to \$5,644,000 for capital projects, of which 35% is for replacement or regulatory/maintenance items. These projects will be financed from operations. The master facility spending plan will be funded from operations and designated investments. More information about the District's capital assets is presented in the notes to basic financial statements.

TABLE 5
Fiscal Year 2019 Capital Budget
(In Thousands)

Master Facility Plan	\$13,804
Replacement equipment	2,002
Contingency	1,425
New Technology	1,009
Other	1,208
Total	<u>\$19,448</u>

Long-Term Debt and Bond Refunding

At March 31, 2018, the District had \$63,930,000 in short-term and long-term debt, plus a premium of \$411,000, less a discount of \$132,000, for a total debt figure of \$64,209,000. More detailed information about the District's long-term liabilities is presented in the notes to basic consolidated financial statements. Total long term debt outstanding represents 17% of the District's total assets and deferred outflows at March 31, 2018.

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH, STATE OF LOUISIANA

CONSOLIDATED STATEMENTS OF NET POSITION

MARCH 31, 2019 AND 2018

ASSETS AND DEFERRED OUTFLOWS

<i>(in thousands)</i>	<u>2019</u>	<u>2018</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 48,236	\$ 25,538
Patient accounts receivable, net of allowances for doubtful accounts and contractual adjustments of \$43,885 in 2019 and \$43,004 in 2018	8,497	9,418
Estimated net receivables under government programs	18,792	16,017
Inventories	4,825	4,627
Prepaid expenses	9,329	4,037
Other current assets	5,413	6,719
Funds held by trustee under bond resolution	5,343	5,261
Total current assets	<u>100,435</u>	<u>71,617</u>
<u>CAPITAL ASSETS</u>		
Land and land improvements	23,368	22,789
Buildings	204,289	199,169
Equipment	238,684	233,013
Construction-in-progress	2,964	2,166
	<u>469,305</u>	<u>457,137</u>
Less: accumulated depreciation and amortization	322,016	304,794
Net capital assets	<u>147,289</u>	<u>152,343</u>
<u>INVESTMENTS AND ACCRUED INTEREST</u>		
Funds designated by Board of Commissioners for plant replacement and expansion, including accrued interest of \$759 in 2019 and \$760 in 2018	153,317	147,308
Restricted for capital projects	66	88
Total investments and accrued interest	<u>153,383</u>	<u>147,396</u>
<u>OTHER ASSETS</u>		
Other assets	5,845	4,708
Total other assets	<u>5,845</u>	<u>4,708</u>
Total assets	<u>406,952</u>	<u>376,064</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>653</u>	<u>797</u>
<u>TOTAL ASSETS AND DEFERRED OUTFLOWS</u>	<u>\$ 407,605</u>	<u>\$ 376,861</u>

The accompanying notes are an integral part of these consolidated statements.

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

<i>(in thousands)</i>	<u>2019</u>	<u>2018</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued liabilities	\$ 23,496	\$ 16,849
Salaries and employee benefit liabilities	7,760	6,376
Accrued interest payable	1,028	1,101
Self-insurance reserves	1,295	1,365
Other current liabilities	32,913	13,178
Current maturities of long-term debt	4,315	4,160
Total current liabilities	<u>70,807</u>	<u>43,029</u>
 <u>LONG-TERM LIABILITIES</u>		
Hospital revenue bonds, less current portion (net of premium of \$330 and discount of \$120 in 2019 and premium of \$411 and discount of \$132 in 2018)	55,665	60,049
Other accrued liabilities, less current portion	-	86
Total long-term debt	<u>55,665</u>	<u>60,135</u>
 Total liabilities	 <u>126,472</u>	 <u>103,164</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
 Total liabilities and deferred inflows	 <u>-</u>	 <u>-</u>
 <u>NET POSITION</u>		
Net investment in capital assets	87,375	88,222
Restricted for debt service	5,343	5,261
Unrestricted	188,415	180,214
Total net position	<u>281,133</u>	<u>273,697</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
	 <u>\$ 407,605</u>	 <u>\$ 376,861</u>

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH, STATE OF LOUISIANA

**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
YEARS ENDED MARCH 31, 2019 AND 2018**

(in thousands)

	<u>2019</u>	<u>2018</u>
<u>OPERATING REVENUES</u>		
Net patient service revenue	\$ 247,843	\$ 224,716
Other operating revenue, net	41,841	46,407
Total operating revenues	<u>289,684</u>	<u>271,123</u>
<u>OPERATING EXPENSES</u>		
Salaries and employee benefits	100,252	87,498
Supplies and materials	74,272	65,869
Purchased services	75,039	86,110
Professional fees	9,287	7,271
Other operating expenses	10,121	10,777
Depreciation	17,251	18,180
Total operating expenses	<u>286,222</u>	<u>275,705</u>
INCOME (LOSS) FROM OPERATIONS	<u>3,462</u>	<u>(4,582)</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Investment revenue including unrealized gains (losses) of \$2,630 in 2019 and (\$2,516) in 2018	5,459	545
Interest expense	(2,133)	(2,277)
Gain on other investments	1,092	670
Other expenses	(444)	(594)
Total nonoperating revenues (expenses)	<u>3,974</u>	<u>(1,656)</u>
CHANGE IN NET POSITION	7,436	(6,238)
Net position - beginning of year	<u>273,697</u>	<u>279,935</u>
NET POSITION - END OF YEAR	<u>\$ 281,133</u>	<u>\$ 273,697</u>

The accompanying notes are an integral part of these consolidated statements.

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH, STATE OF LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2019 AND 2018

(in thousands)

	<u>2019</u>	<u>2018</u>
<u>Operating activities</u>		
Cash collected from patients and third-party payors	\$ 287,830	\$ 279,973
Cash payments to employees and for employee-related costs	(98,868)	(87,844)
Cash payments for operating expenses	(148,331)	(193,093)
Net cash provided by (used in) operating activities	<u>40,631</u>	<u>(964)</u>
<u>Capital and related financing activities</u>		
Purchases of capital assets	(12,197)	(7,045)
Principal and defeasance payments on bonds	(4,160)	(13,104)
Proceeds from issuance of bonds	-	8,970
Bond issuance costs paid	-	(77)
Interest payments on debt	(2,058)	(2,079)
Net cash used in capital and related financing activities	<u>(18,415)</u>	<u>(13,335)</u>
<u>Investing activities</u>		
Interest received on investments	6,551	1,215
Purchases of investments	(128,851)	(51,275)
Proceeds on sales or maturity of investments	122,782	70,784
Net cash provided by investing activities	<u>482</u>	<u>20,724</u>
Net change in cash and cash equivalents	22,698	6,425
Cash and cash equivalents at beginning of year	<u>25,538</u>	<u>19,113</u>
Cash and cash equivalents at end of year	<u>\$ 48,236</u>	<u>\$ 25,538</u>

The accompanying notes are an integral part of these consolidated statements.

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH, STATE OF LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
YEARS ENDED MARCH 31, 2019 AND 2018

(in thousands)

	<u>2019</u>	<u>2018</u>
<u>Reconciliation of operating income to net cash provided by (used in) operating activities</u>		
Income (loss) from operations	\$ 3,462	\$ (4,582)
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	17,251	18,180
Provision for bad debts	13,362	13,829
Changes in operating assets and liabilities:		
Patient accounts receivable	(10,504)	(9,761)
Government program receivables	(4,712)	4,782
Other assets	(5,321)	(3,012)
Accounts payable and accrued liabilities	27,093	(20,400)
Net cash provided by (used in) operating activities	<u>\$ 40,631</u>	<u>\$ (964)</u>

The accompanying notes are an integral part of these consolidated statements.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2019

1. Summary of Significant Accounting Policies

Organization

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana, (the District), a political subdivision of the State of Louisiana and a component unit of the Terrebonne Parish Consolidated Government, owns and operates Terrebonne General Medical Center (“TGMC”), Southern Regional Medical Corporation (“SRMC”), Physician Practice Partners (“PPP”), Acquisitions of Developing Organizations (“AODO”) and Terrebonne Quality Health Network (“TQHN”). The TGMC campus is a 321-bed acute care facility, and the SRMC campus is a 156-bed facility, providing comprehensive medical services in southeast Louisiana. PPP was formed to employ physicians performing professional services on the TGMC campus. AODO, dba “Diagnostic Imaging Center of Terrebonne,” is an imaging center providing imaging services in southeast Louisiana off the campus of TGMC. TQHN is a clinically integrated network organized to improve quality, coordination, efficiency, and delivery of health services to the community.

Basis of Consolidation

The consolidated financial statements include the District and SRMC, a wholly-owned non-profit corporation formed for the purpose of entering into an agreement with the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (LSU), the Louisiana Division of Administration (DOA), and the State of Louisiana through the Division of Administration (the State) and the Louisiana Department of Health & Hospitals (DHH). The accompanying consolidated financial statements also include the District’s controlled subsidiaries, PPP, AODO, and TQHN. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Basis of Accounting

The District uses the accrual basis of accounting for proprietary funds. The consolidated statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent they have been made authoritative under Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*.

Cash and Cash Equivalents

Cash and cash equivalents include investments in money market funds and highly liquid investments with maturities of three months or less when purchased, excluding amounts whose use is limited by board of commissioners’ designation or under trust agreements.

Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market.

Investments

Investments are stated at fair value. Investments and the associated accrued interest are classified as noncurrent due to these funds being designated by the Board of Commissioners for funded reserves and expenditure in the acquisition or construction of capital assets. Investment income is reported as nonoperating revenues.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2019

1. Summary of Significant Accounting Policies (continued)

Other Assets

Other assets include various investments held in connection with a former employee's retirement plan, investment in a purchasing group, and certificates of deposit that are pledged as security under various insurance plans.

Capital Assets

Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Property is recorded at acquisition cost. Depreciation is provided using the straight-line method based on the estimated useful lives of the assets, which range from 2 to 39 years. Depreciation expense was approximately \$17,251,000 and \$18,180,000 for the years ended March 31, 2019 and 2018, respectively.

Deferred Outflows and Inflows

Deferred outflows represent the consumption of the government's net position that is applicable to a future reporting period. A deferred inflow represents the acquisition of net position that is applicable to a future reporting period. The District's deferred outflows at March 31, 2019 and 2018 consist of deferred amounts on bond refinancing. The District has no deferred inflows at March 31, 2019 and 2018.

Net Position

The statement of net position reports net position as the difference between all other elements in a statement of net position and is displayed in three components—net investment in capital assets, restricted net position (distinguishing between major categories of restrictions including net restricted for debt service), and unrestricted net position.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of borrowings for capital asset acquisition, construction, or improvement of those assets, increased by deferred outflows of resources attributable to capital asset acquisition, construction or improvement, and deferred inflows of resources attributable to either capital asset acquisition, construction, or improvement or to capital asset related debt.

Capital-related debt or deferred inflows equal to unspent capital asset related debt proceeds or deferred inflows of resources is included in calculating restricted net position. Capital assets purchased or constructed from the debt proceeds, and the related portion of debt are considered "capital-related." The remainder (the unspent portion of the debt) is included in the calculation of net position restricted for capital projects. The effect on net position is negligible; restricted assets approximates related debt outstanding.

Restricted net position is when there are limitations imposed on their use by external parties such as creditors, grantors, laws or regulations of other governments. Restricted net position consists of restricted assets less liabilities related to restricted assets less deferred inflows related to restricted assets. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Unrestricted net position is the balance of all other elements in a statement of net position remaining after net investment in capital assets and restricted net position.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2019

1. Summary of Significant Accounting Policies (continued)

Revenue and Expenses

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are included in operating income; all peripheral transactions are reported as nonoperating revenues and expenses. Other operating income for 2019 and 2018 includes approximately \$34,403,000 and \$40,142,000, respectively, which relates to grants from supplemental Medicaid payments. Operating expenses are all expenses incurred to provide health services, other than financing costs.

Net Patient Service Revenue

The District has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the District is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payors for the hospital services provided. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Accounts Receivable

The District provides credit in the normal course of operations to patients located primarily in southeast Louisiana and to insurance companies conducting operations in this area.

The District maintains allowances for contractual adjustments, doubtful accounts, and charity care based on management's assessment of collectability, current economic conditions, and prior experience. The District determines if patient accounts receivable are past-due based on the discharge date; however, the District does not charge interest on past-due accounts. The District charges off patient accounts receivable if management considers the collection of the outstanding balances to be doubtful.

Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Records of charges foregone for services and supplies furnished under the charity care policy are maintained to identify and monitor the level of charity care provided (see footnote #11).

Income Taxes

The District is exempt from federal income taxation as a political subdivision of the state of Louisiana and, accordingly, the accompanying consolidated financial statements do not include any provision for income taxes.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2019

1. Summary of Significant Accounting Policies (continued)

Professional Liability Claims

The provision for estimated malpractice claims includes estimates of the ultimate cost for both reported claims and claims incurred but not reported. The District has not experienced material losses from professional liability claims in the past.

Compensated Absences

The District's employees earn vacation days at varying rates depending on years of service. Generally, on the employee's anniversary date, any unused days greater than one year accrual would expire. Employees also earn sick leave benefits; however, sick leave does not vest and is not accrued.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassification had no impact on previously reported net position.

Accounting Pronouncements Issued But Not Yet Adopted

GASB issued Statement No. 87, *Leases*, in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. This Statement requires a lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor to recognize a lease receivable and a deferred inflow of resources. The requirements of this Statement are effective for periods beginning after December 15, 2019.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2019

2. Cash and Investments

The composition of designated or restricted cash and investments at March 31, 2019 and 2018, is set forth below:

	March 31, 2019			
	Cash and Cash Equivalents	Fixed Income Investments	Other Assets	Total
	<i>(in thousands)</i>			
Board-designated -	\$ 11,187	\$ 142,524	\$ -	\$ 153,711
Discounts/premium	-	(1,153)	-	(1,153)
Accrued Interest	-	-	759	759
Total Board-designated	11,187	141,371	759	153,317
Restricted -				
2010 bond issue:				
Interest expense fund	460	-	-	460
Principal fund	2,110	-	-	2,110
Total 2010 bond issue	2,570	-	-	2,570
2013 supplemental bond issue:				
Interest expense fund	310	-	-	310
Principal fund	180	-	-	180
Total 2013 supplemental bond issue	490	-	-	490
2016 supplemental bond issue:				
Interest expense fund	148	-	-	148
Principal fund	1,890	-	-	1,890
Construction fund	66	-	-	66
Total 2016 supplemental bond issue	2,104	-	-	2,104
2017 supplemental bond issue:				
Interest expense fund	110	-	-	110
Principal fund	135	-	-	135
Total 2017 supplemental bond issue	245	-	-	245
Total designated cash and investments	\$ 16,596	\$ 141,371	\$ 759	\$ 158,726

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2019

2. Cash and Investments (continued)

	March 31, 2018			
	Cash and Cash Equivalents	Fixed Income Investments	Other Assets	Total
	<i>(in thousands)</i>			
Board-designated -	\$ 10,762	\$ 137,001	\$ -	\$ 147,763
Discounts/premium	-	(1,215)	-	(1,215)
Accrued Interest	-	-	760	760
Total Board-designated	10,762	135,786	760	147,308
Restricted -				
2010 bond issue:				
Interest expense fund	510	-	-	510
Principal fund	2,010	-	-	2,010
Total 2010 bond issue	2,520	-	-	2,520
2013 supplemental bond issue:				
Interest expense fund	313	-	-	313
Principal fund	170	-	-	170
Total 2013 supplemental bond issue	483	-	-	483
2016 supplemental bond issue:				
Interest expense fund	165	-	-	165
Principal fund	1,850	-	-	1,850
Construction fund	64	-	-	64
Total 2016 supplemental bond issue	2,079	-	-	2,079
2017 supplemental bond issue:				
Interest expense fund	113	-	-	113
Principal fund	130	-	-	130
Construction fund	24	-	-	24
Total 2017 supplemental bond issue	267	-	-	267
Total designated cash and investments	\$ 16,111	\$ 135,786	\$ 760	\$ 152,657

Louisiana state statutes authorize the District to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the state of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions. Due to these restrictions, the District does not have a formal policy that limits the types of investments. During the years ended March 31, 2019 and 2018, the District invested primarily in securities issued by the U.S. Treasury and other federal agencies. The District has a \$25,000,000 named wind storm deductible on its insurance policy and has designated a portion of these funds to cover any outlay that may result from such an event.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2019

2. Cash and Investments (continued)

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The standardized ratings systems are a tool with which to assess credit risk on debt obligations. The following table can be used in determining the level of exposure to credit risk as of March 31, 2019 and 2018 (in thousands):

Risk Rating	Fair Value at 3/31/19	Fair Value at 3/31/18
AAA	\$ 62,464	\$ 51,001
AA	13,166	10,111
A	4,164	5,794
BBB	757	-
Other	332	501
	<u>80,883</u>	<u>67,407</u>
U.S. government or obligations explicitly guaranteed	61,641	69,594
Total	<u>\$ 142,524</u>	<u>\$ 137,001</u>

Obligations of the U.S. government or explicitly guaranteed by the U.S. government are not considered to have credit risk. The investments qualifying for this classification total \$61,641,000 and \$69,594,000 in fair market value at March 31, 2019 and 2018, respectively. The District had investments in obligations that are implicitly guaranteed by the U.S. government and therefore have credit risk exposure, with a fair value of \$79,773,000 and \$66,098,000 at March 31, 2019 and 2018, respectively.

Concentration of Credit Risk

Per GASB Statement 40, *Deposit and Investment Risk Disclosures*, concentration of credit risk is defined as the risk of loss attributed to the magnitude of government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than five percent (5%) of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. The District has investments in Federal Home Loan Mortgage Corporation and Federal National Mortgage Association that represented 6.7%, and 23.8%, respectively, of the total investments at March 31, 2019, and 8.7%, and 19.6%, respectively, of the total investments at March 31, 2018.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the District be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. As of March 31, 2019, \$53,665,383 of the District's bank balance of \$55,415,383 was exposed to credit risk as uninsured and collateralized with securities held by the pledging financial institution. As of March 31, 2018, \$32,147,057 of the District's bank balance of \$33,897,057 was exposed to credit risk as uninsured and collateralized with securities held by the pledging financial institution.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2019

2. Cash and Investments (continued)

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of March 31, 2019 and 2018, the District was not exposed to custodial credit risk for its investments as all were registered in the name of the District.

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The table below summarizes the District's segmented time distribution investment maturities in years by investment type as of March 31, 2019.

Investment Type	Fair Value	Years		
		<1	1-5	>5
		<i>(In Thousands)</i>		
U.S. Treasuries	\$ 28,745	\$ -	\$ 13,708	\$ 15,037
Federal National Mortgage Association	33,928	734	3,791	29,403
Federal Home Loan Bank	3,167	701	2,466	-
Federal Home Loan Mortgage Corporation	9,811	1,698	-	8,113
Federal Farm Credit Banks	2,092	-	1,112	980
Government National Mortgage Association	14,001	-	5	13,996
Small Business Association	18,324	12	1,613	16,699
U.S. Department of Housing and Urban Development	571	-	91	480
Securities guaranteed by the U.S. Government	30,774	4,837	16,805	9,132
State of Louisiana	1,111	614	497	-
	<u>\$ 142,524</u>	<u>\$ 8,596</u>	<u>\$ 40,088</u>	<u>\$ 93,840</u>

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2019

2. Cash and Investments (continued)

Interest Rate Risk – Investments (continued)

The table below summarizes the District's segmented time distribution investment maturities in years by investment type as of March 31, 2018.

Investment Type	Fair Value	Years		
		<1	1-5	>5
		<i>(In Thousands)</i>		
U.S. Treasuries	\$ 41,722	\$ 80	\$ 19,776	\$ 21,866
Federal National Mortgage Association	26,784	2,306	5,572	18,906
Federal Home Loan Bank	2,172	-	2,172	-
Federal Home Loan Mortgage Corporation	11,917	-	7,221	4,696
Federal Farm Credit Banks	151	151	-	-
Government National Mortgage Association	11,503	15	-	11,488
Small Business Association	15,246	54	1,852	13,340
U.S. Department of Housing and Urban Development	1,123	-	543	580
Securities guaranteed by the U.S. Government	25,073	3,161	14,680	7,232
State of Louisiana	1,310	200	1,110	-
	\$ 137,001	\$ 5,967	\$ 52,926	\$ 78,108

3. Fair Value Measurements

To the extent available, the District's investments are recorded at fair value as of March 31, 2019 and 2018. GASB Statement No. 72 – *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2019

3. Fair Value Measurements (continued)

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Investments classified in Level 3 of the fair value hierarchy are valued using unobservable inputs and are not directly corroborated with market data. Level 3 investments consist primarily of real estate, either directly held or through a limited liability corporation or partnership investment. They are valued using independent appraisals or other market data.

A summary of the District's investments along with the fair value hierarchy levels of each type of investment is as follows as of March 31, 2019 (in thousands):

	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Fixed income securities:				
U.S. Treasuries	\$ 28,745	\$ -	\$ 28,745	\$ -
Federal National Mortgage Association	33,928	-	33,928	-
Federal Home Loan Bank	3,167	-	3,167	-
Federal Home Loan Mortgage Corporation	9,811	-	9,811	-
Federal Farm Credit Banks	2,092	-	2,092	-
Government National Mortgage Association	14,001	-	14,001	-
Small Business Association	18,324	-	18,324	-
U.S. Department of Housing and Urban Development	571	-	571	-
State of Louisiana	1,111	-	1,111	-
Total fixed income securities	111,750	-	111,750	-
Equity securities	30,774	26,327	4,447	-
Total Investments by Fair Value Level	\$ 142,524	\$ 26,327	\$ 116,197	\$ -

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2019

3. Fair Value Measurements (continued)

A summary of the District's investments along with the fair value hierarchy levels of each type of investment is as follows as of March 31, 2018 (in thousands):

	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Fixed income securities:				
U.S. Treasuries	\$ 41,722	\$ -	\$ 41,722	\$ -
Federal National Mortgage Association	26,784	-	26,784	-
Federal Home Loan Bank	2,172	-	2,172	-
Federal Home Loan Mortgage Corporation	11,917	-	11,917	-
Federal Farm Credit Banks	151	-	151	-
Government National Mortgage Association	11,503	-	11,503	-
Small Business Association	15,246	-	15,246	-
U.S. Department of Housing and Urban Development	1,123	-	1,123	-
State of Louisiana	1,310	-	1,310	-
Total fixed income securities	111,928	-	111,928	-
Equity securities	25,073	21,081	3,992	-
Total Investments by Fair Value Level	\$ 137,001	\$ 21,081	\$ 115,920	\$ -

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2019

4. Capital Assets

The summary of changes in capital assets for the year ended March 31, 2019 is as follows:

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
	<i>(in thousands)</i>			
Land and land improvements	\$ 22,789	\$579	\$ -	\$ 23,368
Buildings	199,169	5,120	-	204,289
Equipment	233,013	5,702	(30)	238,685
Construction-in-progress	2,166	12,681	(11,883)	2,964
	<u>457,137</u>	<u>24,082</u>	<u>(11,913)</u>	<u>469,306</u>
Accumulated Depreciation				
Land and land improvements	7,442	277	-	7,719
Buildings	111,572	6,874	-	118,446
Equipment	185,780	10,101	(30)	195,851
Total accumulated depreciation	<u>304,794</u>	<u>17,252</u>	<u>(30)</u>	<u>322,016</u>
Capital assets, net	<u>\$152,343</u>	<u>\$6,830</u>	<u>(\$11,883)</u>	<u>\$147,290</u>

The summary of changes in capital assets for the year ended March 31, 2018 is as follows:

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
	<i>(in thousands)</i>			
Land and land improvements	\$ 22,702	\$87	\$ -	\$ 22,789
Buildings	195,831	3,338	-	199,169
Equipment	229,202	3,846	(35)	233,013
Construction-in-progress	2,364	10,717	(10,915)	2,166
	<u>450,099</u>	<u>17,988</u>	<u>(10,950)</u>	<u>457,137</u>
Accumulated Depreciation				
Land and land improvements	7,113	329	-	7,442
Buildings	104,664	6,908	-	111,572
Equipment	174,844	10,943	(7)	185,780
Total accumulated depreciation	<u>286,621</u>	<u>18,180</u>	<u>(7)</u>	<u>304,794</u>
Capital assets, net	<u>\$163,478</u>	<u>(\$192)</u>	<u>(\$10,943)</u>	<u>\$152,343</u>

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2019

5. Debt

The following table summarizes the District's outstanding debt at par value:

	March 31					
	2019	2018	2019	2018	2019	2018
	<i>(in thousands)</i>		<i>Increase</i>	<i>Decrease</i>	<i>Increase</i>	<i>Decrease</i>
Hospital Revenue Bonds, Series 2010, 3.0% to 5.0%	\$ 18,740	\$ 20,750	\$ -	\$ 2,010	\$ -	\$10,115
Hospital Revenue Bonds, Series 2013, 2.75% to 4.0%	16,010	16,180	-	170	-	165
Hospital Revenue Bonds, Series 2016, 1.83%	16,180	18,030	-	1,850	-	1,970
Hospital Revenue Bonds, Series 2017, 2.49%	8,840	8,970	-	130	8,970	-
	<u>59,770</u>	<u>63,930</u>				
Less: amounts due within one year	<u>4,315</u>	<u>4,160</u>				
Long-term portion of debt	<u>\$ 55,455</u>	<u>\$ 59,770</u>				

On September 28, 2017, the District completed the issuance of \$8,970,000 of Series 2017 Revenue Refunding Bonds to refund a portion of the 2010 Series Bonds and pay for the cost of issuing the bonds. The 2017 bonds are serial bonds with semiannual interest payments due April 1 and October 1 of each year. The bonds mature in calendar year 2028 and are subject to mandatory redemption in varying amounts through 2028. The District is funding maturities through a sinking fund that requires the District to fund debt service up to approximately \$1,170,000 annually through fiscal year 2029. The bonds are secured by a pledge and assignment of all revenue, after operating expenses, derived by the District. The bonds are also secured by a mortgage and security agreement of the land on which the District is located. Under the terms of the bond agreement, certain maturities of principal due on the bonds, as well as interest accruing on the bonds, must be funded to the trustee prior to actual payment to the bondholders. The difference between cash flow required to service the old debt and that required to service new debt and complete the refunding was a savings of \$563,461. The economic gain resulting from the transaction was \$652,765. The amount of defeased debt outstanding as of March 31, 2019 is \$8,115,000.

On August 1, 2016, the District completed the issuance of \$20,000,000 of Series 2016 Bonds. The 2016 bonds are serial bonds with semiannual interest payments due April 1 and October 1 of each year. The bonds mature in calendar year 2026 and are subject to mandatory redemption in varying amounts through 2026. The District is funding maturities through a sinking fund that requires the District to fund debt service up to approximately \$2,160,000 annually through fiscal year 2027. The bonds are secured by a pledge and assignment of all revenue, after operating expenses, derived by the District. The bonds are also secured by a mortgage and security agreement of the land on which the District is located. Under the terms of the bond agreement, certain maturities of principal due on the bonds, as well as interest accruing on the bonds, must be funded to the trustee prior to actual payment to the bondholders.

On April 1, 2013, the District completed the issuance of \$16,815,000 of Series 2013 Revenue Refunding Bonds to refund the Series 2003 Bonds and pay for the cost of issuing the bonds. The 2013 bonds are serial bonds with semiannual interest payments due April 1 and October 1 of each year. The bonds mature in varying installments through calendar year 2034 and the bonds maturing in 2029 and 2033 are subject to mandatory redemption through a sinking fund that requires the District to fund debt service up to approximately \$4,105,000 annually through fiscal year 2034. The bonds are secured by a pledge and assignment of all revenue, after operating expenses, derived by the District. The bonds are also secured by a mortgage and security agreement of the land on which the District is located. Under the terms of the bond agreement, certain maturities of principal due on the bonds, as well as interest accruing on the bonds, must be funded to the trustee prior to actual payment to the bondholders.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2019

5. Debt (continued)

The 2010 bonds are serial bonds with semiannual interest payments due April 1 and October 1 of each year. The bonds mature in varying installments through 2028 and the bonds maturing in 2028 are subject to mandatory redemption through a sinking fund that requires the District to fund debt service up to approximately \$2,220,000 annually through the year 2028. The bonds are secured by a pledge and assignment of all revenue, after operating expenses, derived by the District. The bonds are also secured by a mortgage and security agreement of the land on which the District is located. Under the terms of the bond agreement, certain maturities of principal due on the bonds, as well as interest accruing on the bonds, must be funded to the trustee prior to the actual payment to the bondholders.

The scheduled maturities of the long-term debt are as follows (in thousands):

	Principal	Interest
2020	\$ 4,315	\$ 1,981
2021	4,465	1,832
2022	4,610	1,688
2023	4,755	1,544
2024	4,910	1,396
2025 – 2029	22,790	4,626
2030 - 2034	13,925	1,148
Total	<u>\$ 59,770</u>	<u>\$ 14,215</u>

The District was in compliance with all covenants of its outstanding bond issues at March 31, 2019 and 2018.

6. Third-Party Payor Arrangements

The District receives payment from federal and state agencies (under Medicare and Medicaid Programs) for services rendered to program beneficiaries. A summary of the percentage of the Hospital's net patient revenue related to patients participating in the Medicare and Medicaid Programs is as follows:

	2019	2018
Medicare	48.7%	46.5%
Medicaid	13.3%	13.2%

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2019

6. Third-Party Payor Arrangements (continued)

Regulations in effect require annual retroactive settlements for costs reimbursed under these federal programs based upon cost reports filed by the Hospital. The difference between the estimate of these settlements and the final determination of amounts earned under cost reimbursement and prospective payment activities is subject to review by the appropriate governmental authority or its agents. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. These adjustments resulted in a change to net patient service revenue of \$680,829 in 2019 and (\$830,067) in 2018. Estimated settlements through March 31, 2012 for the Medicare program, and through March 31, 2013 for the Medicaid program have been reviewed by program representatives, and adjustments have been recorded to reflect any revisions to the recorded estimates required. The settlement of these cost reports provides the Hospital with updated information that serves as the basis to adjust estimated settlement amounts. Management believes that adequate provision has been made for adjustments that may result from the final determination of amounts earned under these programs.

7. Net Patient Service Revenue

Net patient service revenue is comprised of the following:

	Years Ended March 31	
	2019	2018
	<i>(in thousands)</i>	
Total gross patient service charges, excluding charity care	\$ 838,864	\$ 775,561
Contractual and other allowances:		
Medicare	325,089	283,476
Medicaid	142,913	145,950
Managed care organizations	93,925	88,261
Other	15,732	19,329
Provisions for bad debts	13,362	13,829
Total contractual and other allowances	591,021	550,845
Net patient service revenue	\$ 247,843	\$ 224,716

8. Retirement Plan

The District has a contributory money accumulation pension plan covering all of its full-time employees. Plan participants may contribute to the pension plan. The District contributes amounts from 4% to 5% of each participant's salary to the plan depending upon length of service. Pension expense was approximately \$2,261,000 in 2019 and \$2,324,000 in 2018.

The District has entered into deferred compensation agreements with certain key employees. The deferred compensation agreements are funded by life insurance policies. The District expects these policies to cover all future payments under the deferred compensation agreements. All policies were purchased by June 1995.

9. Commitments and Contingencies

The District participates in the State of Louisiana Patients' Compensation Fund (the Fund) for professional liability coverage. As a participant, the District receives professional liability coverage on a claims-occurrence basis for claims up to the \$500,000 statutory limitation per occurrence. However, the District is self-insured with respect to the first \$100,000 of each claim.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2019

9. Commitments and Contingencies (continued)

The District is self-insured for workers' compensation up to \$500,000 per claim and for employee health insurance up to \$225,000 per claim. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors.

The District purchased commercial insurance that provides coverage for professional liability, workers' compensation, and employee health claims in excess of the self-insured limits. Changes in the District's aggregate claims liability for medical malpractice, workers' compensation, and employee health insurance in fiscal years 2019 and 2018 were as follows (in thousands):

Year Ended March 31	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year- End
2019	\$1,365	\$5,287	\$5,357	\$1,295
2018	\$1,654	\$6,831	\$7,120	\$1,365

Insurance coverage for other loss and liability exposures is maintained at levels considered appropriate by management. The District has been named as a defendant in various legal actions arising from normal business activities, in which damages in various amounts are claimed. The amount of ultimate liability, if any, with respect to such matters cannot be determined, but management believes that any such liability would not have a material effect on the District's financial position.

The District has signed several contracts with major contractors for various construction projects. In addition, a contract is still active with a software vendor to purchase upgrades and additional modules for the District's business and clinical information systems. The detailed terms of these agreements are proprietary and they will result in an estimated cost of \$2,292,000.

10. Leases

The District leases office space and clinical facilities, generally to members of its medical staff, under operating leases whose terms range from one to five years. Assets held for lease at March 31, 2019 and 2018 consisted of land, buildings and improvements including fixed equipment with total costs of \$37,957,000 and \$37,010,000, respectively. Accumulated depreciation of the leased assets totaled \$26,109,000 and \$24,746,000 at March 31, 2019 and 2018, respectively.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2019

10. Leases (continued)

The future minimum lease payments to be received from these leases during the next five years are as follows:

Year ending <u>March 31st</u>	Amount <i>(in thousands)</i>
2020	\$ 1,425
2021	1,314
2022	1,139
2023	216
2024	160

11. Community Support (Unaudited)

The District is an active and caring member of the community. Its mission of providing and improving medical care in the region as well as its participation in community activities is a long standing tradition of service provided to benefit the broader community.

The District has served the community during the years ended March 31, 2019 and 2018, as follows:

	<u>2019</u>	<u>2018</u>
	<i>(in thousands)</i>	
Care for the indigent:		
Traditional charity care (in charges)	\$13,184	\$12,760
Self Pay discounts (in charges)	12,590	13,570
Unreimbursed government program costs:		
Unpaid costs of State programs	6,611	8,992
Unpaid costs of Federally funded programs	7,511	10,152
Benefits for Community and Region:		
Community Health Services	1,232	1,248
Community Building Activities	135	141
Community Benefit Operations	216	186
Health Professions Education	274	374
Subsidized Health Services	1,445	1,222
Community Outreach	376	390
Costs and services directly provided to the Community	<u>3,678</u>	<u>3,561</u>
Total quantifiable Community Benefits	<u>\$43,574</u>	<u>\$49,035</u>

The amount reported as care for the indigent represents billings for services provided based on the District's charge rates to persons who cannot afford health care because of unavailable resources or who are uninsured. Benefits for the broader community include the unpaid cost of treating Medicare and Medicaid beneficiaries in excess of government payments and services provided to other needy populations that may not qualify as indigent but that require special services and support. Examples include the cost of health promotion and education, costs in providing access to services, and health clinics and screenings, all of which benefit the broader community.

OTHER SUPPLEMENTAL INFORMATION

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH, STATE OF LOUISIANA

CONSOLIDATING STATEMENT OF NET POSITION
MARCH 31, 2019

ASSETS AND DEFERRED OUTFLOWS

<i>(in thousands)</i>	<u>TGMC</u>	<u>SRMC</u>	<u>Consolidated</u>
<u>CURRENT ASSETS</u>			
Cash and cash equivalents	\$ 35,622	\$ 12,614	\$ 48,236
Patient accounts receivable, net of allowances for doubtful accounts and contractual adjustments of \$43,885 in 2019	6,708	1,789	8,497
Estimated net receivables under government programs	9,878	8,914	18,792
Inventories	3,907	918	4,825
Prepaid expenses	2,549	6,780	9,329
Other current assets	5,406	7	5,413
Funds held by trustee under bond resolution	5,343	-	5,343
Total current assets	<u>69,413</u>	<u>31,022</u>	<u>100,435</u>
<u>CAPITAL ASSETS</u>			
Land and land improvements	23,368	-	23,368
Buildings	201,375	2,914	204,289
Equipment	231,836	6,848	238,684
Construction-in-progress	2,724	240	2,964
	<u>459,303</u>	<u>10,002</u>	<u>469,305</u>
Less: accumulated depreciation and amortization	<u>318,520</u>	<u>3,496</u>	<u>322,016</u>
Net capital assets	<u>140,783</u>	<u>6,506</u>	<u>147,289</u>
<u>INVESTMENTS AND ACCRUED INTEREST</u>			
Funds designated by Board of Commissioners for plant replacement and expansion, including accrued interest of \$759 in 2019	153,317	-	153,317
Restricted for capital projects	66	-	66
Total investments and accrued interest	<u>153,383</u>	<u>-</u>	<u>153,383</u>
<u>OTHER ASSETS</u>			
Other assets	5,845	-	5,845
Total other assets	<u>5,845</u>	<u>-</u>	<u>5,845</u>
Total assets	<u>369,424</u>	<u>37,528</u>	<u>406,952</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>653</u>	<u>-</u>	<u>653</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 370,077</u>	<u>\$ 37,528</u>	<u>\$ 407,605</u>

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

(in thousands)

	<u>TGMC</u>	<u>SRMC</u>	<u>Consolidated</u>
<u>CURRENT LIABILITIES</u>			
Accounts payable and accrued liabilities	\$ 22,592	\$ 904	\$ 23,496
Salaries and employee benefit liabilities	6,690	1,070	7,760
Accrued interest payable	1,028	-	1,028
Self-insurance reserves	1,295	-	1,295
Other current liabilities	-	32,913	32,913
Current maturities of long-term debt	4,315	-	4,315
Total current liabilities	<u>35,920</u>	<u>34,887</u>	<u>70,807</u>
<u>LONG-TERM LIABILITIES</u>			
Hospital revenue bonds, less current portion (net of premium of \$330 and discount of \$120 in 2019)	55,665	-	55,665
Total long-term debt	<u>55,665</u>	<u>-</u>	<u>55,665</u>
Total liabilities	<u>91,585</u>	<u>34,887</u>	<u>126,472</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Total liabilities and deferred inflows	<u>-</u>	<u>-</u>	<u>-</u>
<u>NET POSITION</u>			
Net investment in capital assets	80,869	6,506	87,375
Restricted for debt service	5,343	-	5,343
Unrestricted	192,280	(3,865)	188,415
Total net position	<u>278,492</u>	<u>2,641</u>	<u>281,133</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	<u>\$ 370,077</u>	<u>\$ 37,528</u>	<u>\$ 407,605</u>

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH, STATE OF LOUISIANA

CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED MARCH 31, 2019

(in thousands)

	<u>TGMC</u>	<u>SRMC</u>	<u>Consolidated</u>
<u>OPERATING REVENUES</u>			
Net patient service revenue	\$ 185,812	\$ 62,031	\$ 247,843
Other operating revenue, net	13,397	28,444	41,841
Total operating revenues	<u>199,209</u>	<u>90,475</u>	<u>289,684</u>
<u>OPERATING EXPENSES</u>			
Salaries and employee benefits	87,050	13,202	100,252
Supplies and materials	52,277	21,995	74,272
Purchased services	22,829	52,210	75,039
Professional fees	9,287	-	9,287
Other operating expenses	8,144	1,977	10,121
Depreciation	16,160	1,091	17,251
Total operating expenses	<u>195,747</u>	<u>90,475</u>	<u>286,222</u>
INCOME (LOSS) FROM OPERATIONS	<u>3,462</u>	<u>-</u>	<u>3,462</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>			
Investment revenue including unrealized gains (losses) of \$2,630 in 2019	5,459	-	5,459
Interest expense	(2,133)	-	(2,133)
Gain on other investments	1,092	-	1,092
Other revenue (expenses)	<u>(444)</u>	<u>-</u>	<u>(444)</u>
Total nonoperating revenues (expenses)	<u>3,974</u>	<u>-</u>	<u>3,974</u>
CHANGE IN NET POSITION	7,436	-	7,436
Net position - beginning of year	<u>271,056</u>	<u>2,641</u>	<u>273,697</u>
NET POSITION - END OF YEAR	<u>\$ 278,492</u>	<u>\$ 2,641</u>	<u>\$ 281,133</u>

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH, STATE OF LOUISIANA

CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2019

(in thousands)

	<u>TGMC</u>	<u>SRMC</u>	<u>Consolidated</u>
<u>Operating activities</u>			
Cash collected from patients and third-party payors	\$ 200,796	\$ 87,034	\$ 287,830
Cash payments to employees and for employee-related costs	(86,736)	(12,132)	(98,868)
Cash payments for operating expenses	(85,554)	(62,777)	(148,331)
Net cash provided by (used in) operating activities	<u>28,506</u>	<u>12,125</u>	<u>40,631</u>
<u>Capital and related financing activities</u>			
Purchases of capital assets	(9,409)	(2,788)	(12,197)
Principal and defeasance payments on bonds	(4,160)	-	(4,160)
Interest payments on debt	(2,058)	-	(2,058)
Net cash used in capital and related financing activities	<u>(15,627)</u>	<u>(2,788)</u>	<u>(18,415)</u>
<u>Investing activities</u>			
Interest received on investments	6,551	-	6,551
Purchases of investments	(128,851)	-	(128,851)
Proceeds on sales or maturity of investments	122,782	-	122,782
Net cash provided by investing activities	<u>482</u>	<u>-</u>	<u>482</u>
Net change in cash and cash equivalents	13,361	9,337	22,698
Cash and cash equivalents at beginning of year	<u>22,261</u>	<u>3,277</u>	<u>25,538</u>
Cash and cash equivalents at end of year	<u>\$ 35,622</u>	<u>\$ 12,614</u>	<u>\$ 48,236</u>

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH, STATE OF LOUISIANA

CONSOLIDATING STATEMENT OF CASH FLOWS (continued)
YEAR ENDED MARCH 31, 2019

(in thousands)

	<u>TGMC</u>	<u>SRMC</u>	<u>Consolidated</u>
<u>Reconciliation of operating income to net cash provided by operating activities</u>			
Loss from operations	\$ 3,462	\$ -	\$ 3,462
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:			
Depreciation	16,160	1,091	17,251
Provision for bad debts	5,305	8,057	13,362
Changes in operating assets and liabilities:			
Patient accounts receivable	(3,121)	(7,383)	(10,504)
Government program receivables	(597)	(4,115)	(4,712)
Other assets	1,338	(6,659)	(5,321)
Accounts payable and accrued liabilities	5,959	21,134	27,093
Net cash provided by (used in) operating activities	\$ 28,506	\$ 12,125	\$ 40,631

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH,
STATE OF LOUISIANA

GROSS REVENUE PAYOR MIX SCHEDULE
YEAR ENDED MARCH 31, 2019

	<u>TGMC</u>	<u>SRMC</u>
Medicare	54%	34%
Medicaid	21%	50%
Managed Care	22%	7%
Self-pay and Other	3%	9%
Total Gross Patient Revenues	<u>100%</u>	<u>100%</u>

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH,
STATE OF LOUISIANA

SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER
PAYMENTS TO CHIEF EXECUTIVE OFFICER

YEAR ENDED MARCH 31, 2019

CHIEF EXECUTIVE OFFICER - PHYLLIS PEOPLES

Salary	\$	674,000
Employer paid payroll taxes		18,013
Benefits-insurance		31,411
Benefits-retirement		30,800
Vehicle provided by government		2,400
Dues		423
Registration fees		1,155
Conference travel		1,999
Special meals		146
	\$	<u>760,347</u>

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH,
STATE OF LOUISIANA

REPORT ON COMPLIANCE AND INTERNAL CONTROL

MARCH 31, 2019

INDEPENDENT AUDITORS' 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

The Board of Commissioners
Hospital Service District No. 1 of Terrebonne Parish,
State of Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana (the District), a component unit of the Terrebonne Parish Consolidated Government, as of and for the year ended March 31, 2019, and the related notes to the consolidated financial statements, which collectively comprise the District's basic consolidated financial statements as listed in the table of contents, and have issued our report thereon dated August 21, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



Postlethwaite & Netterville

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's consolidated 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 determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and 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.

Postlethwaite & Netterville

Baton Rouge, Louisiana

August 21, 2019

TERREBONNE GENERAL MEDICAL CENTER

REPORT ON STATEWIDE
AGREED-UPON PROCEDURES ON COMPLIANCE
AND CONTROL AREAS

FOR THE YEAR ENDED MARCH 31, 2019



Postlethwaite & Netterville

A Professional Accounting Corporation

www.pncpa.com

Independent Accountants' Report
On Applying Agreed-Upon Procedures
For the Year Ended 2019

To the Members of the Board of Commissioners of Terrebonne General Medical Center
and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by Terrebonne General Medical Center (the Entity) and the Louisiana Legislative Auditor (LLA) (specified users) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period April 1, 2018 through March 31, 2019. The Entity's management is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results thereof are set forth below. The procedure is stated first, followed by the results of the procedure presented in italics. If the item being subjected to the procedures is positively identified or present, then the results will read "*no exception noted.*" If not, then a description of the exception ensues. Additionally, certain procedures listed below may not have been performed in accordance with guidance provided by the Louisiana Legislative Auditor, the specified user of the report. For those procedures, "procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity" is indicated.

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):
 - a) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget.
 - b) ***Purchasing***, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.
 - c) ***Disbursements***, including processing, reviewing, and approving
 - d) ***Receipts***, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

- e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
- f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
- g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases)
- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers
- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.
- j) **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

Board or Finance Committee

- 2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:
 - a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.
 - b) For those entities reporting on the governmental accounting model, observe that the minutes referenced or included monthly budget-to-actual comparisons on the general fund and major special revenue funds, as well as monthly financial statements (or budget-to-actual comparisons, if budgeted) for major proprietary funds. Alternately, for those entities reporting on the non-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.
 - c) For governmental entities, obtain the prior year audit report and observe the unrestricted fund balance in the general fund. If the general fund had a negative ending unrestricted fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unrestricted fund balance in the general fund.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

Bank Reconciliations

3. Obtain a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for selected each account, and observe that:
 - a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);
 - b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and
 - c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

Collections

4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

5. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:
 - a) Employees that are responsible for cash collections do not share cash drawers/registers.
 - b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.

- c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.
- d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

6. Inquire of management that all employees who have access to cash are covered by a bond or insurance policy for theft.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc. Obtain supporting documentation for each of the 10 deposits and:

- a) Observe that receipts are sequentially pre-numbered.
- b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.
- c) Trace the deposit slip total to the actual deposit per the bank statement.
- d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100).
- e) Trace the actual deposit per the bank statement to the general ledger.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

Non-payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases)

8. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:
- a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.
 - b) At least two employees are involved in processing and approving payments to vendors.
 - c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.
 - d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

10. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:
- a) Observe that the disbursement matched the related original invoice/billing statement.
 - b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

11. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

A listing of cards was provided. No exceptions were noted as a result of performing this procedure.

12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:

From the listing provided, we selected 5 cards (3 credit cards, 1 P-Card, and 1 fuel card) used in the fiscal period. We selected one monthly statement for each of the 5 cards selected and performed the procedures noted below.

- a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.)]

No exceptions noted.

- b) Observe that finance charges and late fees were not assessed on the selected statements.

No exceptions noted.

13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only).

We selected and performed this procedure for all transactions for the three credit card statements selected in procedure #12, since each statement selected had less than 10 transactions. We also selected and tested 10 transactions for the P-Card selected in procedure #12. No exceptions noted.

Travel and Travel-Related Expense Reimbursements (excluding card transactions)

14. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:
 - a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).
 - b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.
 - c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).
 - d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

Contracts

15. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. Alternately, the practitioner may use an equivalent selection source, such as an active vendor list. Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:

An active vendor list for the fiscal period was provided. No exceptions were noted as a result of performing this procedure. From the listing provided, we selected 5 contracts and performed the procedures below.

- a) Observe that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.

Of the 5 contracts selected for our procedures, none were subject to Louisiana Public Bid Law.

- b) Observe that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).

No exceptions noted.

- c) If the contract was amended (e.g. change order), observe that the original contract terms provided for such an amendment.

No exceptions noted.

- d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

We randomly selected 1 payment for each of the 5 contracts selected in procedure #15 above and performed the specified procedure. No exceptions noted.

Payroll and Personnel

16. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

17. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:
- a) Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.).
 - b) Observe that supervisors approved the attendance and leave of the selected employees/officials.
 - c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

18. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees/officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations, agree the hours to the employee/officials' cumulative leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.:

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

19. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

Ethics

20. Using the 5 randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above obtain ethics documentation from management, and:
- a) Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.
 - b) Observe that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity's ethics policy during the fiscal period.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

Debt Service

21. Obtain a listing of bonds/notes issued during the fiscal period and management's representation that the listing is complete. Select all bonds/notes on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each bond/note issued.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

Other

23. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

24. Observe that the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the Entity.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

Sincerely,

Postlethwaite & Netterville

August 21, 2019