

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Independent Auditor's Reports and Financial Statements
September 30, 2020 and 2019

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
September 30, 2020 and 2019

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Hospital Service District No. 3, a Component unit of Lafourche Parish, State of Louisiana (the District), as of and for the years ended September 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Emphasis of Matter

As described in *Note 3*, the District adopted *Governmental Accounting Standards Board Statement No. 87, Leases*. Our opinions are not modified with respect to this matter.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the identify the required supplementary information, such as management's discussion and analysis and other postemployment benefit information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Compensation, Reimbursements, Benefits and Other Payments to the Agency Head as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
March 31, 2021

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

Introduction

This management's discussion and analysis of the financial performance of Hospital Service District No. 3, a Component Unit of Lafourche Parish, State of Louisiana (the District) provides an overview of the District's financial activities for the years ended September 30, 2020 and 2019. It should be read in conjunction with the accompanying financial statements of the District.

Using This Annual Report

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

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

One of the most important questions asked about any entity's finances is, "Is the entity as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities and deferred inflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in it. The District's total net position - the difference between assets less liabilities less deferred inflows of resources - is one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating or if there have been significant changes to the entity's operations.

The Statement of Cash Flows

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

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Management's Discussion and Analysis (Continued)
Years Ended September 30, 2020 and 2019

2020 Financial Highlights

Through September 30, 2019, Hospital Service District No. 3, a Component Unit of Lafourche Parish, State of Louisiana (the District), also known as Thibodaux Regional Medical Center, operated a regional medical center. Effective October 1, 2019, the District began leasing all hospital buildings and equipment and transferred working capital and hospital operations to Thibodaux Regional Health System Inc. (TRHS) in exchange for a note receivable due from TRHS of approximately \$133,095,000 due at the end of the initial term of the lease.

Due to this transition, the District did not provide healthcare related services or incur expenses related to the delivery of healthcare services to patients during the year ended September 30, 2020. The only activity of the District during the year ended September 30, 2020 is the continued development of a cancer center and the leasing of the hospital buildings and equipment to TRHS.

The District's Net Position

The District's net position is the difference between its assets, liabilities and deferred inflows of resources reported in the balance sheet. The District's net position decreased by approximately \$7,379,000 or 2.0% in 2020 over 2019, as shown in Table 1.

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

	2020	2019
	<i>(In Thousands)</i>	
Assets		
Patient accounts receivable, net	\$ -	\$ 22,283
Other current assets	6,188	26,678
Cash and investments, noncurrent	37,293	155,503
Capital assets, net	184,123	180,695
Lease receivable	173,387	-
Note receivable	133,095	-
Other noncurrent assets	-	2,148
Total assets	\$ 534,086	\$ 387,307
Liabilities		
Current liabilities	\$ 2,868	\$ 18,219
Other postemployment benefits liability	-	3,515
Total liabilities	2,868	21,734
Deferred Inflows of Resources	173,387	363
Net Position		
Net investment in capital assets	181,258	179,841
Unrestricted	176,573	185,369
Total net position	357,831	365,210
Total liabilities, deferred inflows of resources and net position	\$ 534,086	\$ 387,307

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Management's Discussion and Analysis (Continued)
Years Ended September 30, 2020 and 2019

The overall significant increase in assets and liabilities in 2020 as compared to 2019 is due to the recognition of a lease receivable and deferred inflow of resources associated with the lease entered into effective October 1, 2019 with TRHS and the adoption of GASB Statement No. 87, *Leases* (GASB 87) (*Note 3*).

In addition, other significant changes from 2019 to 2020 would include the transfer of all working capital associated with hospital operations to TRHS effective October 1, 2019.

Operating Results and Changes in the District's Net Position

In 2020, the District's net position decreased by approximately \$7,379,000 or 2.0% as shown in Table 2. The District's change in net position decreased approximately \$19,993,000 or 158.8% from 2019 to 2020.

Table 2: Operating Results and Changes in Net Position

	2020	2019
Operating Revenues	<i>(In Thousands)</i>	
Net patient service revenue	\$ -	\$ 184,524
Other	-	6,492
Total operating revenues	<u>-</u>	<u>191,016</u>
Operating Expenses		
Salaries, wages and employee benefits	-	86,478
Supplies, professional fees and purchased services	-	82,613
Depreciation and amortization	12,806	16,148
Total operating expenses	<u>12,806</u>	<u>185,239</u>
Operating (Loss) Income	<u>(12,806)</u>	<u>5,777</u>
Nonoperating Revenues, Net	6,281	6,777
Loss on Disposal of Operations (<i>Note 2</i>)	<u>(854)</u>	<u>-</u>
(Decrease) Increase in Net Position	<u>\$ (7,379)</u>	<u>\$ 12,554</u>

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Management's Discussion and Analysis (Continued)
Years Ended September 30, 2020 and 2019

Operating Income (Loss)

The first component of the overall change in the District's net position is its operating income (loss) – historically, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. As the District transferred all hospital operations to TRHS effective October 1, 2019, the only operating expenses incurred were those associated with the depreciation of the buildings and equipment being leased to TRHS.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses prior to October 1, 2019, consisted primarily of investment income, contributions and income from joint ventures. In 2020, nonoperating revenues and expenses consist primarily of interest income associated with the note receivable entered into with TRHS in exchange for the transfer of hospital operations and working capital.

The District's Cash Flows

Changes in the District's operating, noncapital and financing and capital and related financing cash flows are consistent with changes in operating income (loss) and nonoperating revenues and expenses for 2020 and 2019, discussed earlier. The net cash provided by investing activities is attributable to the transfer of hospital operations including working capital to TRHS effective October 1, 2019.

Capital Assets

At September 30, 2020 and 2019, the District had approximately \$184,123,000 and \$180,695,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 8* to the financial statements. In 2020 and 2019, the District developed new property and purchased equipment costing approximately \$20,449,000 and \$17,254,000, respectively.

Contacting the District's Financial Management

This financial report is designed to provide the District's community and suppliers with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the District Administration by telephoning (985) 447-5500.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Balance Sheets
September 30, 2020 and 2019

Assets

	2020	2019
Current Assets		
Cash	\$ 69,883	\$ 19,004,009
Short-term investments	-	125,000
Patient accounts receivable, net of allowance; 2019 – \$12,380,000	-	22,282,723
Other receivables	-	828,924
Interest receivable	6,117,489	-
Supplies	-	3,119,379
Prepaid expenses and other	-	3,601,091
	<u>6,187,372</u>	<u>48,961,126</u>
 Noncurrent Cash and Investments		
Board designated for capital expenditures	<u>37,292,653</u>	<u>155,503,441</u>
	<u>37,292,653</u>	<u>155,503,441</u>
 Capital Assets, Net	184,123,366	180,695,148
 Note Receivable	133,095,297	-
 Lease Receivable	173,386,983	-
 Other Assets	<u>-</u>	<u>2,147,233</u>
 Total assets	<u>\$ 534,085,671</u>	<u>\$ 387,306,948</u>

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2020</u>	<u>2019</u>
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,867,945	\$ 15,985,847
Estimated amounts due to third-party payers	-	2,233,746
Total current liabilities	2,867,945	18,219,593
Other Postemployment Benefits Liability	-	3,514,674
Total liabilities	2,867,945	21,734,267
Deferred Inflows of Resources	173,386,983	362,603
Net Position		
Net investment in capital assets	181,258,049	179,841,027
Unrestricted	176,572,694	185,369,051
Total net position	357,830,743	365,210,078
Total liabilities, deferred inflows of resources and net position	<u>\$ 534,085,671</u>	<u>\$ 387,306,948</u>

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2020 and 2019

	2020	2019
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 – \$13,081,000	\$ -	\$184,523,536
Other	-	6,491,894
	-	191,015,430
Total operating revenues	-	191,015,430
Operating Expenses		
Salaries and wages	-	72,963,756
Employee benefits	-	13,514,125
Professional fees and services	-	8,801,181
Supplies and other	-	45,866,317
Purchased services	-	16,871,107
Other	-	11,074,302
Depreciation and amortization	12,806,448	16,147,888
	12,806,448	185,238,676
Total operating expenses	12,806,448	185,238,676
Operating (Loss) Income	(12,806,448)	5,776,754
Nonoperating Revenues (Expenses)		
Investment income	-	6,366,270
Interest income	6,325,779	-
TIC JV distributions	-	(63,558)
Noncapital grants and contributions received	-	28,928
Noncapital grants and contributions expended	-	(32,113)
Loss from disposal of capital assets	(44,787)	(93,887)
Income from joint venture	-	571,705
	6,280,992	6,777,345
Total nonoperating revenues	6,280,992	6,777,345
(Deficiency) Excess of Revenues Over Expenses Before Special Item	(6,525,456)	12,554,099
Special Item - Loss on Disposal of Operations (Note 2)	(853,879)	-
(Decrease) Increase in Net Position	(7,379,335)	12,554,099
Net Position, Beginning of Year	365,210,078	352,655,979
Net Position, End of Year	\$ 357,830,743	\$365,210,078

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Operating Activities		
Receipts from and on behalf of patients and third-party payers	\$ -	\$183,108,084
Payments to suppliers and contractors	-	(83,365,554)
Payments to employees	-	(85,812,261)
Other receipts, net	-	5,871,449
	-	19,801,718
Net cash provided by operating activities	-	19,801,718
Noncapital and Financing Activities		
Grants and contributions received	-	28,928
Grants and contributions expended	-	(32,113)
Distributions to TIC JV shareholders	-	(63,558)
Cash paid on disposal of operations	(24,576,676)	-
	(24,576,676)	(66,743)
Net cash used in noncapital and financing activities	(24,576,676)	(66,743)
Capital and Related Financing Activities		
Proceeds from the sale of capital assets	-	20,756
Purchase of capital assets	(17,581,390)	(18,492,537)
	(17,581,390)	(18,471,781)
Net cash used in capital and related financing activities	(17,581,390)	(18,471,781)
Investing Activities		
Investment income	208,290	2,754,073
Distributions received from joint venture	-	560,674
Purchase of investments	-	(37,220,747)
Proceeds from disposition of investments	-	35,715,285
	208,290	1,809,285
Net cash provided by investing activities	208,290	1,809,285
(Decrease) Increase in Cash	(41,949,776)	3,072,479
Cash, Beginning of Year	79,312,312	76,239,833
Cash, End of Year	\$ 37,362,536	\$ 79,312,312
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 69,883	\$ 19,004,009
Noncurrent cash	37,292,653	60,308,303
	\$ 37,362,536	\$ 79,312,312
Total cash	\$ 37,362,536	\$ 79,312,312

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Statements of Cash Flows (Continued)
Years Ended September 30, 2020 and 2019

	2020	2019
Reconciliation of Operating (Loss) Income to		
Net Cash Provided by Operating Activities		
Operating (loss) income	\$ (12,806,448)	\$ 5,776,754
Depreciation and amortization	12,806,448	16,147,888
Forgiveness of physician note receivables	-	754,876
Provision for uncollectible accounts	-	13,081,171
Changes in operating assets and liabilities		
Patient accounts receivable, net	-	(15,189,933)
Estimated amounts due to third-party payers	-	771,256
Accounts payable and accrued expenses	-	696,230
Other postemployment benefits (OPEB) liability	-	363,274
OPEB deferred inflows of resources	-	(23,274)
Other assets and liabilities	-	(2,576,524)
	\$ -	\$ 19,801,718
 Supplemental Cash Flows Information		
Capital asset additions in accounts payable	\$ 2,865,317	\$ 854,121
Lease receivable obtained for leasing capital assets	193,502,248	-
Non-cash lease receivable forgiveness	20,115,265	-

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Notes to Financial Statements
September 30, 2020 and 2019

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

Nature of Operations and Reporting Entity

Through September 30, 2019, Hospital Service District No. 3, a Component Unit of Lafourche Parish, State of Louisiana (the District), also known as Thibodaux Regional Medical Center, operated a regional medical center located in Thibodaux, Louisiana that primarily earned revenues by providing inpatient, outpatient and emergency care services to patients in the Lafourche Parish (Parish) area. The Parish appoints a five-member board of commissioners who operate the District. In addition, the District's financial statements included the operations of Thibodaux Regional Surgical Services, Inc. (TRSS), a holding company that owned a 30% investment in Thibodaux Surgery Center, LLC, an ambulatory surgery center and the operations of TIC JV, LLC (TIC) which leased and subleased the imaging center to the District. Effective October 1, 2019, the District transferred the hospital operations to Thibodaux Regional Health System, Inc. (TRHS) as described in *Note 2*.

Basis of Accounting and Presentation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Notes to Financial Statements
September 30, 2020 and 2019

Cash

The District excludes amounts restricted as to use by board designation from cash. Noncurrent cash includes cash balances at September 30, 2020 and 2019 that were restricted by board designation. The District treats restricted and unrestricted cash equivalents as investments.

Risk Management

Through September 30, 2019, the District was self-insured for a portion of its exposure to risk of loss from employee health, workers' compensation and medical malpractice claims. An annual estimated provision was accrued for the self-insured portion of employee health, workers' compensation and medical malpractice claims and included an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported. All risk of loss for reported or unreported claims through September 30, 2019 have been transferred to TRHS. As of October 1, 2019, the District does not have employees.

Investments and Investment Income

Investments in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Investment in Joint Venture

TRSS holds a 30% interest in Thibodaux Surgery Center, LLC (TSC), an ambulatory surgery center which provides services to the community. Through September 30, 2019, this investment was carried using the equity method of accounting. Using this method of accounting, TRSS's share of net income was recognized as non-operating revenue in the District's statement of revenues, expenses and changes in net position and added to the investment account. The investment was also reduced for any dividends received. The investment in the joint venture was included in other assets on the balance sheet as of September 30, 2019. The investment in the joint venture was transferred to TRHS effective October 1, 2019 (*Note 2*).

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Notes to Financial Statements
September 30, 2020 and 2019

Patient Accounts Receivable

Through September 30, 2019, the District reported patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The District provided an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Through September 30, 2019, supply inventories were stated at the lower of cost, determined using the first-in, first-out method or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the District:

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

Compensated Absences

Through September 30, 2019, the District's policies permitted most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability were recognized as vacation benefits were earned whether the employee was expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits were recognized when earned to the extent the employee was expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off were recognized as expense when the time off occurred and no liability was accrued as of September 30, 2019 for such benefits employees earned but were not yet realized. Compensated absence liabilities as of September 30, 2019 were computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Postemployment Benefits Other Than Pensions

Through September 30, 2019, the District had a single-employer defined benefit other postemployment benefit plan (OPEB). For purposes of measuring the total OPEB liability, deferred outflows and deferred inflows of resources related to OPEB, and OPEB expense had been determined on the same basis as they were reported by the OPEB. For this purpose, the District recognized benefit payments when due and payable in accordance with the benefit terms.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Notes to Financial Statements
September 30, 2020 and 2019

Deferred Outflows/Inflows of Resources

Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future reporting periods are reported as deferred outflows of resources or deferred inflows of resources.

Net Position

Net position of the District is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and amortization and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. As of September 30, 2020 and 2019 the District had no outstanding long-term debt but did have accounts payable for the purchase of capital additions. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

Through September 30, 2019, the District had agreements with third-party payers that provided for payments to the District at amounts different from its established rates. Net patient service revenue was reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and included estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments were considered in the recognition of revenue on an estimated basis in the period the related services were rendered and such estimated amounts were revised in future periods as adjustments become known.

Charity Care

Through September 30, 2019, the District provided care without charge to patients who were unable to pay for services. Because the District did not pursue collection of amounts determined to qualify as charity care, these amounts were not reported as net patient service revenue.

Income Taxes

As an essential government function of the Parish, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income. TRSS was a legally separate, wholly-owned entity of the District through September 30, 2019, that is a non-profit corporation that is not subject to federal and state income taxes. TIC did not pay taxes due to its income being passed through to its tax exempt and physician owners.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Notes to Financial Statements
September 30, 2020 and 2019

Note 2: Hospital Transition and Lease Agreement

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

Effective October 1, 2019, the District began leasing all hospital buildings and equipment and transferred working capital and hospital operations to TRHS in exchange for a note receivable due from TRHS of approximately \$133,095,000 due at the end of the initial term of the lease. The note receivable is further described at *Note 10*. The hospital transition agreement provides that the District retains certain powers incident to its purpose as a hospital service district; that TRHS shall at all times operate the facilities in conformity with the standard performance of the Joint Commission for the Accreditation of Healthcare Organizations; and that TRHS shall operate the hospital to provide healthcare services at a level of such services comparable to that of the District prior to the transition. TRHS will provide substantially all of the management and direction of the hospital operations, subject only to the District's constitutional and statutory duties to provide or cause to provide medical and hospital care to the Parish's needy inhabitants.

The District has accounted for the disposal of operations in accordance with GASB 69, *Government Combinations and Disposals of Government Operations*. The disposal was accomplished by TRHS acquiring certain licenses, contracts and the working capital of the District in exchange for the note receivable.

The term of the lease between the District and TRHS is 30 years with two successive options to renew the lease for a period of 10 additional years. At the end of each lease year, TRHS is subject to pay rent of \$10,450,000 per year, with stated escalations throughout the term of the lease. In addition, TRHS is entitled to specific credits against the rent due that are identified in the lease, primarily related to capital expenditures and other expenses as defined in the lease agreement. Upon the end of the lease term or any extensions thereof, all of the remaining assets of TRHS shall be transferred, assigned and conveyed back to the District. The lease receivable is further described at *Note 9*.

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

Assets

Cash	\$ 18,937,742
Short-term investments	125,000
Patient accounts receivable	22,282,723
Other receivables	828,924
Supplies	3,119,379
Prepaid expenses and other assets	3,601,091
Noncurrent cash and investments designated by board for capital expenditures	100,834,072
Capital assets, net	4,169,882
Other assets	<u>2,147,233</u>
 Total assets contributed at date of disposal	 <u>156,046,046</u>

Liabilities

Accounts payable and accrued expenses	(15,985,847)
Estimated amounts due to third party payers	(2,233,746)
Other post employment liabilities	<u>(3,877,277)</u>
 Total liabilities contributed at date of disposal	 <u>(22,096,870)</u>

Consideration Received

Note receivable from TRHS	<u>133,095,297</u>
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Loss on Disposal of Operations

<u>\$ (853,879)</u>

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Note 3: Adoption of Governmental Accounting Standards Board Statement No. 87

GASB issued Statement No. 87, *Leases* (GASB 87), in June 2017, originally effective for reporting periods beginning after December 15, 2019. GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95), which postponed the effective date to reporting periods beginning after June 15, 2021. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments by creating a single model for leases. This statement increases the usefulness of the financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The District elected to early adopt this statement effective October 1, 2019. As all of the leases as of September 30, 2019 were transferred to TRHS on October 1, 2019, the adoption has only been applied to leases entered into on October 1, 2019 and forward, including the lease with TRHS described in *Note 2* and *Note 9*. The implementation of this statement resulted in the recognition of a lease receivable and a deferred inflow of resources of approximately \$193,502,000 for lessor contracts as of October 1, 2019. The District does not have any lessee contracts as of September 30, 2020.

Note 4: Net Patient Service Revenue

Through September 30, 2019, the District had agreements with third-party payers that provided for payments to the District at amounts different from its established rates. These payment arrangements included:

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. Through September 30, 2019, the District had also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the District under these agreements included prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

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Note 5: Louisiana Medicaid Supplemental Payment Programs

Through September 30, 2019, the District received supplemental Medicaid payments for inpatient and outpatient services in accordance with specific state statutes subject to federal regulations and approval. Under one of the agreements, the District received supplemental payments for services provided by physicians in recognition for providing services to Medicaid patients. During the year ended September 30, 2019, total revenues, net of expenses, recognized by the District related to this agreement was approximately \$1,001,000. These receipts and payments were recorded as net patient service revenue in the statements of revenues, expenses and changes in net position. Under a separate agreement, the District entered into a cooperative endeavor agreement with other health care providers for the purpose of ensuring adequate healthcare services were available for underserved, non-rural populations. During the year ended September 30, 2019, total revenues, net of expenses, recognized by the District related to this agreement were approximately \$4,506,000. These receipts and payments were recorded as net patient service revenue in the 2019 statement of revenues, expenses and changes in net position.

Note 6: Deposits and Investments

Deposits

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

State law requires collateralization of all deposits with federal depository insurance or other qualified investments in the state of Louisiana. At September 30, 2020 the District's deposits were either insured or collateralized. At September 30, 2019, with the exception of approximately \$3,707,000 held by TIC, a blended component unit of the District prior to the transfer to TRHS, the District's deposits were either insured or collateralized.

Investments

The District may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and Louisiana municipal bonds, interest-bearing accounts and certificates of deposits of financial institutions, open-end or closed-end management type investment companies or investment trusts and investment trusts consisting of pooled or comingled funds of other hospitals.

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The District had no investments at September 30, 2020. At September 30, 2019, the District had the following investments and maturities:

Type	Fair Value	September 30, 2019			
		Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
U.S. Treasury obligations	\$ 41,489,636	\$ 2,294,342	\$ 26,264,170	\$ 12,931,124	\$ -
U.S. agencies obligations	41,876,935	2,673,065	18,830,065	3,575,434	16,798,371
Corporate bonds	3,016,160	1,999,830	1,016,330	-	-
Money market mutual funds	6,812,407	6,812,407	-	-	-
	<u>\$ 93,195,138</u>	<u>\$ 13,779,644</u>	<u>\$ 46,110,565</u>	<u>\$ 16,506,558</u>	<u>\$ 16,798,371</u>

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the District’s investment policy does not limit a percentage of its investment portfolio to maturities of less than one year but limits a maximum of 70%, 50% and 30% to maturities of one to five and a half, five and a half to ten and more than ten but less than twenty years, respectively. The longer the maturity of a fixed-rate obligation, the greater the impact a change in interest rates will have on its fair value. As interest rates increase, the fair value of the obligations decrease. Likewise, when interest rates decrease, the fair value of the obligations decrease. The money market mutual funds are presented as an investment with a maturity of less than one-year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District’s policy, which conforms to Louisiana state law, does not specifically limit investment in securities based on ratings issued by nationally recognized statistical rating organizations (NRSROs), but the policy does designate authorized investments by type. As of September 30, 2019, the District’s debt securities of the U.S agencies are rated AA+ by Standards and Poor’s rating agency. The District’s investments in corporate bonds were rated A to AA by Standard & Poor’s rating agency. The District’s investments in municipal bonds were rated AA- by Standard & Poor’s rating agency. The District’s investments in money market mutual funds were rated AAAM by Standard & Poor’s and Aaa by Moody’s Investors Service. The District also invests in certificates of deposits, which are classified as deposits for financial reporting purposes. These certificates are fully collateralized by the various financial institutions.

Custodial Credit Risk – For an investment, custodial credit risk 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 investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk – The District’s investment policy, in accordance with state statute, restricts investments in U.S. agencies to 50% of total investments. Investments in open-end and closed-end management type investment companies and investment trusts are limited to 20% of total investments. At September 30, 2020 and 2019, management believes the District complies with this policy.

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The following table reflects the District's investments in single issuers that represent more than 5% of total investments at September 30, 2019:

Federal Home Loan Bank	10.3%
Federal National Mortgage Association	12.0%
Federal Home Loan Mortgage Corporation	11.0%
Government National Mortgage Association	8.4%

The District's formal investment policy is governed by and in conformity with Section 39:2955 of the Louisiana Revised Statutes, which establishes guidelines for depository and investment activity as follows:

- In accordance with statutes of the State of Louisiana, the District maintains its deposits at financial institutions authorized by the Board of Commissioners.
- The collateral for public entity deposits in financial institutions is held in the name of the State Treasurer of Louisiana under a program established by the Louisiana State Legislature and is governed by Section 33:2955 of the Louisiana Revised Statutes. Under this program, the District's funds are protected through a collateral pool administered by the State Treasurer.
- Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits.
- In the event of a financial institution's failure, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Summary of Carrying Values

The District holds the following deposits and investments:

	2020	2019
Cash deposits, operating funds	\$ 69,883	\$ 19,004,009
Cash deposits, board designated funds	37,292,653	56,640,229
Certificates of deposits, short-term investments	-	125,000
Certificates of deposits, board designated funds	-	2,000,000
Money market deposits, board designated funds	-	3,668,074
Money market mutual funds, board designated funds	-	6,812,407
Investments, board designated funds	-	86,382,731
	\$ 37,362,536	\$ 174,632,450

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The carrying values of deposits and investments are included in the balance sheets as follows:

	<u>2020</u>	<u>2019</u>
Cash	\$ 69,883	\$ 19,004,009
Short-term investments	-	125,000
Board designated for capital expenditures	<u>37,292,653</u>	<u>155,503,441</u>
	<u>\$ 37,362,536</u>	<u>\$ 174,632,450</u>

Note 7: Patient Accounts Receivable

Through September 30, 2019, the District granted credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30, 2019 consisted of:

Medicaid	\$ 1,521,019
Medicare	8,980,208
Other third-party payers	10,950,167
Patients	<u>13,211,352</u>
	34,662,746
Less allowance for uncollectible accounts	<u>12,380,023</u>
	<u>\$ 22,282,723</u>

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Note 8: Capital Assets

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

	2020				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 7,936,002	\$ -	\$ -	\$ -	\$ 7,936,002
Land improvements	6,351,731	11,320	-	305,207	6,668,258
Buildings and improvements	225,490,974	21,536	-	1,180,924	226,693,434
Equipment	104,642,921	-	(15,304,848)	-	89,338,073
Construction in progress	7,694,202	20,416,479	(1,696,556)	(1,486,131)	24,927,994
	352,115,830	20,449,335	(17,001,404)	-	355,563,761
Less accumulated depreciation	(171,420,682)	(12,806,448)	12,786,735	-	(171,440,395)
Capital assets, net	<u>\$ 180,695,148</u>	<u>\$ 7,642,887</u>	<u>\$ (4,214,669)</u>	<u>\$ -</u>	<u>\$ 184,123,366</u>
	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 7,736,002	\$ 200,000	\$ -	\$ -	\$ 7,936,002
Land improvements	6,283,030	68,701	-	-	6,351,731
Buildings and improvements	221,038,773	457,232	-	3,994,969	225,490,974
Equipment	98,996,610	8,702,108	(3,080,499)	24,702	104,642,921
Construction in progress	3,888,138	7,825,735	-	(4,019,671)	7,694,202
	337,942,553	17,253,776	(3,080,499)	-	352,115,830
Less accumulated depreciation	(158,238,650)	(16,147,888)	2,965,856	-	(171,420,682)
Capital assets, net	<u>\$ 179,703,903</u>	<u>\$ 1,105,888</u>	<u>\$ (114,643)</u>	<u>\$ -</u>	<u>\$ 180,695,148</u>

As of September 30, 2020, the District had construction commitments outstanding of \$22,459,000 related to a construction project.

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Note 9: Lease Receivable

Effective October 1, 2019, the District leases all of its hospital buildings and equipment to TRHS pursuant to the hospital transition and lease agreements described in *Note 2*. The lease has an initial term of 30 years with two successive 10-year renewals if both parties agree to the terms. The initial payments under the lease are \$10,450,000 per year, subject to certain rent credits, and are due at the end of each lease year. Payments increase every 3 to 5 years based upon stated percent increases ranging from 3.0% to 7.5% within the lease agreement.

The leases were measured based upon the stated rent increases defined in the lease agreement at lease commencement. The rent credits incurred by the lessee described in *Note 2* are variable payments that were not included in the measurement of the leases as they are based upon future performance by TRHS and therefore are recognized in the period in which they are incurred. Pursuant to the lease agreement, rent credits that exceed total rent due in a current year may be applied against future rent or from time to time against the note and interest receivable as described in *Note 10* when and as approved by the District.

During the year ended September 30, 2020, no revenue was recognized under the lease with TRHS as total rent credits exceeded the rent due. For the year ended September 30, 2020, total rent credits earned by TRHS totaled approximately \$33,337,000 and have been applied as a reduction in the lease receivable and deferred inflow of resources. Due to the rent credits earned by TRHS during the year ended September 30, 2020 rent will not be due by TRHS until the year ended September 30, 2023.

Note 10: Note and Interest Receivable

Pursuant to the hospital transition agreement on October 1, 2019, the District transferred all working capital and operations of the hospital to TRHS in exchange for a note receivable of approximately \$133,095,000. The note receivable bears interest at 4.45%. Interest payments are due annually and the unpaid principal balance shall be due in full at the end of the lease described in *Note 9*. As of September 30, 2020, amounts due under the note receivable and interest receivable totaled approximately \$133,095,000 and \$6,117,000, respectively, and are included in the accompanying 2020 balance sheet.

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Note 11: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at September 30, 2020 and 2019, consisted of:

	<u>2020</u>	<u>2019</u>
Payable to suppliers and contractors	\$ 2,867,945	\$ 5,674,377
Payable to employees (including payroll taxes and benefits)	-	6,097,162
Estimated self insurance costs (<i>Note 12</i>)	-	3,002,441
Patient credit balances	-	1,211,867
	<u>\$ 2,867,945</u>	<u>\$ 15,985,847</u>

Note 12: Risk Management

Medical Malpractice and General Liability Risks

Through September 30, 2019, the District participated in the State of Louisiana Patient Compensation Fund (Fund) for medical malpractice claims. The Fund has a statutory limitation of liability which provides that no award can be rendered against it in excess of \$500,000, plus interest and legal costs. The Fund provides coverage on a claims-made basis for claims over \$100,000 and up to \$500,000. The District was also insured on a claims-made basis through a commercial insurance carrier for malpractice losses that exceed \$500,000 up to \$10,000,000 per occurrence, with a total annual limit of \$10,000,000, and with a self-insurance retention of \$100,000 per occurrence with no maximum amount per year in aggregate.

Losses from asserted and unasserted claims identified under the District's incident reporting system were accrued based on estimates that incorporate the District's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors.

Activity in the District's accrued medical malpractice claims liability during 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 1,022,632	\$ 932,632
Current year claims incurred and changes in estimates for claims incurred in prior years	-	310,458
Claims and expenses paid	-	(220,458)
Transferred to TRHS	<u>(1,022,632)</u>	<u>-</u>
Balance, end of year	<u>\$ -</u>	<u>\$ 1,022,632</u>

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The District was also insured on a claims-made basis through a commercial insurance carrier for general liability losses that exceed \$100,000 up to \$9,500,000 per occurrence, with a total annual limit of \$9,500,000, and with a self-insurance retention of \$100,000 per occurrence with no maximum amount per year in aggregate. As of September 30, 2020 and 2019, the District accrued \$0 and \$395,866, respectively, as reserves for self-insurance retentions on outstanding general liability claims.

Employee Health and Workers' Compensation Claims

Substantially all of the District's employees and their dependents were eligible to participate in the District's employee health insurance plan. Through September 30, 2019, the District was self-insured for health claims of participating employees and dependents up to an annual stop-loss limit up to \$150,000 per employee. Commercial stop-loss insurance coverage was purchased for claims in excess of these amounts. Through September 30, 2019, the District was also self-insured for workers' compensation claims up to \$100,000 per claim. A provision was accrued for self-insured employee health claims and workers compensation claims, including both claims reported and claims incurred but not yet reported. The accruals were estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors.

Activity in the District's accrued employee health and workers' compensation claims liability during 2020 and 2019, is summarized as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 1,583,943	\$ 1,293,583
Current year claims incurred and changes in estimates for claims incurred in prior years	-	5,582,344
Claims and expenses paid	-	(5,291,984)
Transferred to TRHS	<u>(1,583,943)</u>	<u>-</u>
Balance, end of year	<u>\$ -</u>	<u>\$ 1,583,943</u>

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Note 13: Other Postemployment Benefits (OPEB) Health Care Plan

Plan Description and Benefits Provided

Through September 30, 2019, the OPEB was sponsored by the District for retirees meeting certain criteria. Effective October 1, 2019, the OPEB was transferred to TRHS (*Note 2*).

The OPEB allowed retirees to receive health and vision insurance for themselves (and spouses and dependents, as applicable) through the District's self-insured health plan at a nominally discounted rate until they reach the age of Medicare eligibility. Benefits under the OPEB as well as the OPEB's funding policy were determined by the District's board of commissioners and could be revised or amended at any time. The District funded these benefits on a pay-as-you-go basis, meaning the District would pay the benefits as they come due. The OPEB does not issue a separate report that includes financial statements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

A measurement date of September 30, 2018 was used for the September 30, 2019 liability and expense. The information that follows was determined as of a valuation date of September 30, 2018.

Total OPEB Liability

The District's total OPEB liability of \$3,514,674 as of September 30, 2019 was measured as of 2018 and was determined by an actuarial valuation as of September 30, 2018.

The total OPEB liability in the September 30, 2018 actuarial valuation report was determined using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	3.5%
Discount rate	4.24% (3.63% in prior year)
Health care cost trend rates	7.0%, decreasing 0.5% per year to an ultimate rate of 4.5% for 2023 and later years

The discount rate used to measure the total OPEB liability was 4.24% which reflected the index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the measurement date as reflected in the Bond Buyer 20-Bond GO index.

Mortality rates were from the SOA RP-2014 generational table scaled using MP-2019 and applied on a gender-specific basis.

No formal actuarial experience studies have been performed.

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Changes in the Total OPEB Liability

	2020	2019
Total OPEB liability, beginning of year	\$ 3,514,674	\$ 3,151,400
Changes for the year:		
Service cost	-	261,925
Interest	-	124,908
Benefit payments	-	(23,559)
Transferred to TRHS	(3,514,674)	-
Net changes	(3,514,674)	363,274
Total OPEB liability, end of year	\$ -	\$ 3,514,674

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2019, the District recognized OPEB expense of \$340,000. At September 30, 2019, the District reported deferred inflows of resources related to the OPEB from changes of assumptions and other inputs of \$362,603. There were no deferred outflows of resources related to the OPEB for the years ended September 30, 2019.

Note 14: Retirement Plans

Through September 30, 2019, the District had three defined contribution pension plans that covered substantially all employees of the District. These plans were transferred to TRHS effective October 1, 2019. Retirement contributions made by the District to these plans for the year ended September 30, 2019 totaled approximately \$2,188,000.

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Note 15: Investment in Joint Venture

Through September 30, 2019, the District held a 30% ownership TSC. Effective October 1, 2019, the District transferred its all of its remaining ownership interest in TSC to TRHS. Financial position and results of operations of the joint venture for the year ended September 30, 2019 is summarized below:

Current assets	\$ 1,737,040
Property and equipment, net	<u>432,052</u>
Total assets	<u>\$ 2,169,092</u>
Current liabilities	\$ 608,516
Long-term liabilities	<u>57,867</u>
Total liabilities	<u>666,383</u>
Members' capital	<u>1,502,709</u>
Total liabilities and members' capital	<u>\$ 2,169,092</u>
Net patient service revenue	\$ 8,585,160
Operating expenses	(6,396,340)
Non-operating income	<u>(32,306)</u>
Net income	<u>\$ 2,156,514</u>

The carrying amount of the District's investment in the joint venture was \$375,555 at September 30, 2019. Income from the District's investment in the joint venture was \$571,705 for the year ended September 30, 2019.

Additionally, through September 30, 2019, the District leased office space to TSC under an operating lease. Amounts received under the lease agreements for the year ended September 30, 2019, totaled approximately \$459,000.

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Note 16: Disclosures About Fair Value of Assets and Liabilities

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2019. There were no assets or liabilities measured at fair value at September 30, 2020.

	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2019				
Investments by fair value level				
U.S. Treasury obligations	\$ 41,489,636	\$ 41,489,636	\$ -	\$ -
U.S. agency obligations	41,876,935	-	41,876,935	-
Corporate bonds	3,016,160	-	3,016,160	-
Money market mutual funds	6,812,407	6,812,407	-	-
Total investments by fair value level	<u>\$ 93,195,138</u>	<u>\$ 48,302,043</u>	<u>\$ 44,893,095</u>	<u>\$ -</u>
Other assets by fair value level				
U.S. agency obligations	<u>\$ 210,380</u>	<u>\$ -</u>	<u>\$ 210,380</u>	<u>\$ -</u>

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Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The District did not have any Level 3 investments at September 30, 2020 and 2019.

Required Supplementary Information

Hospital Service District No. 3
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Schedule of Changes in the District's Total OPEB Liability
Years Ended September 30,

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability			
Service cost	\$ -	\$ 261,925	\$ 261,925
Interest	-	124,908	124,908
Changes of assumptions or other inputs	-	-	(409,151)
Benefit payments	-	(23,559)	(10,838)
Transferred to TRHS	(3,514,674)	-	-
Net change in total OPEB liability	<u>(3,514,674)</u>	<u>363,274</u>	<u>(33,156)</u>
Total OPEB liability—beginning	<u>3,514,674</u>	<u>3,151,400</u>	<u>3,184,556</u>
Total OPEB liability—ending	<u>\$ -</u>	<u>\$ 3,514,674</u>	<u>\$ 3,151,400</u>

Notes to Schedule:

OPEB Plan liability and contributions ceased effective October 1, 2019 due to the transfer of hospital operations to TRHS. See *Note 2*.

Changes of assumptions. 2018 - Change in discount rate.

This schedule is presented as of the measurement date which is as of the fiscal year-end.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Medical Center will present information for those years for which information is available.

Supplementary Information

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Schedule of Compensation, Reimbursements, Benefits and Other Payments
to the Agency Head
Year Ended September 30, 2020

Agency Head Name: Jody Plaisance, Board of Commissioners Chairman

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

**Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of the Financial Statements Performed in Accordance
with *Government Auditing Standards***

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Hospital Service District No. 3, a Component Unit of Lafourche Parish, State of Louisiana (District), which comprise the statement of financial position as of September 30, 2020 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2021.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Dallas, Texas
March 31, 2021