# Hospital Service District No. 3
## A Component Unit of Lafourche Parish, State of Louisiana
## (d/b/a Thibodaux Regional Medical Center)

Independent Auditor's Reports and Financial Statements

September 30, 2019 and 2018

# Hospital Service District No. 3
## A Component Unit of Lafourche Parish, State of Louisiana
## (d/b/a Thibodaux Regional Medical Center)
### September 30, 2019 and 2018

## Contents

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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
(d/b/a Thibodaux Regional Medical Center)
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 (d/b/a Thibodaux Regional Medical Center) (Medical Center), as of and for the years ended September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Medical Center'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.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of September 30, 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 and other postemployment benefits 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 Medical Center's basic financial statements. The Schedule of Compensation, Reimbursements, Benefits and Other Payments to the Chief Executive Officer 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 Chief Executive Officer 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 Chief Executive Officer 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 17, 2020, on our consideration of the Medical Center'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 Medical Center'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 Medical Center's internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
March 17, 2020

### *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 (d/b/a Thibodaux Regional Medical Center) (Medical Center) provides an overview of the Medical Center's financial activities for the years ended September 30, 2019 and 2018. It should be read in conjunction with the accompanying financial statements of the Medical Center.

### *Using This Annual Report*

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

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

One of the most important questions asked about any hospital's finances is, "Is the entity as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Medical Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and 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 Medical Center's net position and changes in it. The Medical Center's total net position - the difference between assets less liabilities less deferred inflows of resources - is one measure of the Medical Center's financial health or financial position. Over time, increases or decreases in the Medical Center's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Medical Center's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Medical Center.

### *The Statement of Cash Flows*

The statement of cash flows reports cash receipts, cash payments and net changes in cash 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.

### *2019 Financial Highlights*

- Cash and investments increased by approximately $8,190,000 or 4.9% in 2019 compared to 2018.
- The Medical Center's net position increased approximately $12,554,000 or 3.6% in 2019 compared to 2018.
- The Medical Center reported operating income in 2019 of approximately $5,777,000, which represents an increase of $125,000 or 2.2% from the $5,652,000 operating income reported in 2018.
- Net nonoperating revenues increased by approximately $6,314,000 or 1,361% in 2019 compared to 2018.

### *The Medical Center's Net Position*

The Medical Center's net position is the difference between its assets, liabilities and deferred inflows of resources reported in the balance sheet. The Medical Center's net position increased by approximately $12,554,000 or 3.6% in 2019 over 2018, as shown in Table 1.

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

| | 2019 | 2018 |
|---|---|---|
| | *(In Thousands)* | |
| **Assets** | | |
| Patient accounts receivable, net | $ 22,283 | $ 20,174 |
| Other current assets | 26,678 | 21,808 |
| Capital assets, net | 180,695 | 179,704 |
| Cash and investments, noncurrent | 155,503 | 149,566 |
| Other noncurrent assets | 2,148 | 2,932 |
| Total assets | $ 387,307 | $ 374,184 |
| **Liabilities** | | |
| Current liabilities | $ 18,219 | $ 17,991 |
| Other postemployment benefits liability | 3,515 | 3,151 |
| Total liabilities | 21,734 | 21,142 |
| **Deferred Inflows of Resources** | 363 | 386 |
| **Net Position** | | |
| Net investment in capital assets | 179,841 | 177,611 |
| Unrestricted | 185,369 | 175,045 |
| Total net position | 365,210 | 352,656 |
| Total liabilities, deferred inflows of resources and net position | $ 387,307 | $ 374,184 |

A significant change in the Medical Center's assets in 2019 is the increase in cash and investments. Cash and investments increased by approximately $8,190,000 or 4.9% in 2019 over 2018 and results primarily from the Medical Center's positive operations in the current year and the reinvestment of the positive cash flows into investments.

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

In 2019, the Medical Center's net position increased by approximately $12,554,000 or 3.6% as shown in Table 2. The Medical Center's change in net position increased approximately $6,438,000 or 105.3% from 2018 to 2019.

### *Table 2: Operating Results and Changes in Net Position*

| | 2019 | 2018 |
|---|---|---|
| | *(In Thousands)* | |
| **Operating Revenues** | | |
| Net patient service revenue | $ 184,524 | $ 177,726 |
| Other | 6,492 | 6,502 |
| Total operating revenues | 191,016 | 184,228 |
| **Operating Expenses** | | |
| Salaries, wages and employee benefits | 86,478 | 83,405 |
| Supplies, professional fees and purchased services | 82,613 | 79,727 |
| Depreciation and amortization | 16,148 | 15,444 |
| Total operating expenses | 185,239 | 178,576 |
| **Operating Income** | 5,777 | 5,652 |
| **Nonoperating Revenues, Net** | 6,777 | 464 |
| **Increase in Net Position** | $ 12,554 | $ 6,116 |

### *Operating Income*

The first component of the overall change in the Medical Center's net position is its operating income – generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In both 2019 and 2018, the Medical Center has reported operating income. This is consistent with management's goal of operating the Medical Center in an efficient manner.

The operating income increased in 2019 by approximately $125,000 or 2.2% as compared to 2018. The primary components of the increased operating income are shown below:

- An increase in net patient service revenue of approximately $6,798,000 or 3.8%
- A decrease in other operating revenues of approximately $11,000 or 0.2%
- An increase in salaries, wages and employee benefits of approximately $3,072,000 or 3.7%
- An increase in depreciation and amortization of approximately $704,000 or 4.6%
- An increase in supplies and other costs of approximately $2,886,000 or 3.6%

During 2019, the Medical Center derived 96.6% of its total operating revenue from net patient service revenue. Below is a breakout of gross patient service revenues and contractual and other adjustments by payer for the years ended September 30, 2019 and 2018:

| | 2019 | 2018 | Dollar Change | Percent |
|---|---|---|---|---|
| | *(In Thousands)* | | | |
| Gross patient service revenue | $ 814,499 | $ 759,601 | $ 54,898 | 7.2% |
| Contractual and other adjustments | | | | |
| Medicare | 342,438 | 309,921 | 32,517 | 10.5% |
| Managed Care | 143,111 | 135,317 | 7,794 | 5.8% |
| Medicaid | 102,927 | 99,919 | 3,008 | 3.0% |
| Other | 28,418 | 26,956 | 1,462 | 5.4% |
| Total contractual adjustments | 616,894 | 572,113 | 44,781 | 7.8% |
| | 197,605 | 187,488 | 10,117 | 5.4% |
| Provision for uncollectible accounts | 13,081 | 9,762 | 3,319 | 34.0% |
| Net patient service revenue | $ 184,524 | $ 177,726 | $ 6,798 | 3.8% |

Gross patient service charges increased $54,898,000 or 7.2% from the prior year primarily due to the rate increase effective on May 10, 2019. Net patient service revenue, before the provision for uncollectible accounts, increased $10,117,000 or 5.4%. Total provision for contractual adjustments as a percent of gross patient service revenues were 75.7% for 2019 and 75.3% in 2018. The slight increase in contractual adjustments as a percent of gross patient service revenues is driven primarily by the shift of volumes from inpatient to outpatient.

Excluded from gross patient service revenue are amounts forgone for patient services under the Medical Center's charity care policy. These amounts were based on established rates for the services provided. Gross charges of approximately $1,056,000 were forgone during 2019 compared to $1,079,000 during 2018. The provision for uncollectible accounts increased to approximately $13,081,000 from the prior year amount of $9,762,000.

The increase in salaries, wages and employee benefits of approximately $3,072,000 or 3.7% from $83,405,000 in 2018 to $86,478,000 in 2019 was due to an increase in number of employees and merit increases provided to employees during 2019.

The increase in depreciation and amortization expense of approximately $704,000 or 4.6% from $15,444,000 in 2018 to $16,148,000 in 2019 was due to additional capital assets being placed in service in 2019.

Supplies and other costs increased approximately $2,886,000 or 3.6% from $79,727,000 in 2018 to $82,613,000 in 2019 due to the increase in costs associated with implants and infusion supplies.

### *Earnings before Interest, Depreciation and Amortization*

Earnings before interest, depreciation and amortization (EBIDA) as of the years ended September 30, are as follows:

| | 2019 | 2018 |
|---|---|---|
| | *(In Thousands)* | |
| **Operating Income** | $ 5,777 | $ 5,652 |
| Plus depreciation and amortization | 16,148 | 15,444 |
| EBIDA | $ 21,925 | $ 21,096 |

The Medical Center did not incur any interest expense as they did not have any outstanding debt as of September 30, 2019 and 2018. EBIDA for the year ended September 30, 2019 increased $829,000 or 3.9% for the reasons noted above in changes in operating income.

### *Nonoperating Revenues and Expenses*

Nonoperating revenues and expenses consist primarily of investment income, contributions and income from joint ventures. Investment income consists of interest earnings on funds designated by the board of commissioners. Other gains/losses that are not directly related to the provision of healthcare services are also classified as nonoperating income. Nonoperating income increased approximately $6,314,000 or 1361% from the prior year due to increases in investment income.

Investment income decreased approximately $6,292,000 in 2019 as compared to 2018 due to the performance of fixed income securities held by the Medical Center in 2019 compared to 2018. Income from the equity method joint venture increased $146,000 or 34.4% from 2018 to 2019.

### *The Medical Center's Cash Flows*

Changes in the Medical Center's operating, noncapital and financing and capital and related financing cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2019 and 2018, discussed earlier. The net cash provided by investing activities is attributable to certain investments reaching maturity and remaining in cash.

### *Capital Assets*

At September 30, 2019 and 2018, the Medical Center had approximately $180,695,000 and $179,704,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2019 and 2018, the Medical Center purchased new property and equipment costing approximately $17,254,000 and $14,184,000, respectively.

### *2018 Financial Highlights*

- Cash and investments increased by approximately $7,042,000 or 4.4% in 2018 compared to 2017.
- The Medical Center's net position increased approximately $4,369,000 or 1.3% in 2018 compared to 2017.
- The Medical Center reported operating income in 2018 of approximately $5,652,000, which represents a decrease of $1,554,000 or 21.6% from the $7,206,000 operating income reported in 2017.
- Net nonoperating revenues decreased by approximately $975,000 or 67.8% in 2018 compared to 2017.

### *The Medical Center's Net Position*

The Medical Center's net position is the difference between its assets, liabilities and deferred inflows of resources reported in the balance sheet. The Medical Center's net position increased by approximately $4,369,000 or 1.3% in 2018 over 2017, as shown in Table 3.

### *Table 3: Assets, Liabilities, Deferred Inflows of Resources and Net Position*

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| **Assets** | | |
| Patient accounts receivable, net | $ 20,174 | $ 19,092 |
| Other current assets | 21,808 | 22,933 |
| Capital assets, net | 179,704 | 180,987 |
| Cash and investments, noncurrent | 149,566 | 141,774 |
| Other noncurrent assets | 2,932 | 1,833 |
| Total assets | $ 374,184 | $ 366,619 |
| **Liabilities** | | |
| Current liabilities | $ 17,991 | $ 16,894 |
| Other postemployment benefits | 3,151 | 1,438 |
| Total liabilities | 21,142 | 18,332 |
| **Deferred Inflows of Resources** | 386 | - |
| **Net Position** | | |
| Net investment in capital assets | 177,611 | 180,183 |
| Unrestricted | 175,045 | 168,104 |
| Total net position | 352,656 | 348,287 |
| Total liabilities and net position | $ 374,184 | $ 366,619 |

A significant change in the Medical Center's assets in 2018 is the increase in cash and investments and the increase in other post employment benefits (OPEB) liability and the related deferred inflows of resources. Cash and investments increased by approximately $7,042,000 or 4.4% in 2018 over 2017 and results primarily from the Medical Center's positive operations in the current year and the reinvestment of the positive cash flows into investments. The OPEB liability and the related deferred inflows of resources increased approximately $2,099,000 or 146.0%. The increase is primarily due to the adoption of GASB 75 in 2018.

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

In 2018, the Medical Center's net position increased by approximately $4,369,000 or 1.3% as shown in Table 2. This increase is made up of a positive change in net position of approximately $6,116,000 in 2018 and a decrease in beginning net position of approximately $1,747,000 due to the adoption of GASB 75. The Medical Center's change in net position decreased approximately $2,529,000 or 29.3% from 2017 to 2018.

### *Table 4: Operating Results and Changes in Net Position*

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| **Operating Revenues** | | |
| Net patient service revenue | $ 177,726 | $ 173,517 |
| Other | 6,502 | 6,094 |
| Total operating revenues | 184,228 | 179,611 |
| **Operating Expenses** | | |
| Salaries, wages and employee benefits | 83,405 | 81,672 |
| Supplies, professional fees and purchased services | 79,727 | 76,021 |
| Depreciation and amortization | 15,444 | 14,712 |
| Total operating expenses | 178,576 | 172,405 |
| **Operating Income** | 5,652 | 7,206 |
| **Nonoperating Revenues** | 464 | 1,439 |
| **Increase in Net Position** | $ 6,116 | $ 8,645 |

### *Operating Income*

The first component of the overall change in the Medical Center's net position is its operating income – generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In both 2018 and 2017, the Medical Center has reported operating income. This is consistent with management's goal of operating the Medical Center in an efficient manner.

The operating income decreased in 2018 by approximately $1,554,000 or 21.6% as compared to 2017. The primary components of the increased operating income are shown below:

- An increase in net patient service revenue of approximately $4,209,000 or 2.4%
- An increase in other operating revenues of approximately $408,000 or 6.7%
- An increase in salaries, wages and employee benefits of approximately $1,733,000 or 2.1%
- An increase in depreciation and amortization of approximately $732,000 or 5.0%
- An increase in supplies and other costs of approximately $3,706,000 or 4.9%

During 2018, the Medical Center derived 96.5% of its total operating revenue from net patient service revenue. Below is a breakout of gross patient service revenues and contractual and other adjustments by payer for the years ended September 30, 2018 and 2017:

| | 2018 | 2017 | Dollar Change | Percent |
|---|---|---|---|---|
| | *(In Thousands)* | | | |
| Gross patient service revenue | $ 759,601 | $ 718,094 | $ 41,507 | 5.8% |
| Contractual and other adjustments | | | | |
| Medicare | 309,921 | 288,591 | 21,330 | 7.4% |
| Managed Care | 135,317 | 128,962 | 6,355 | 4.9% |
| Medicaid | 99,919 | 93,073 | 6,846 | 7.4% |
| Other | 26,956 | 24,422 | 2,534 | 10.4% |
| Total contractual adjustments | 572,113 | 535,048 | 37,065 | 6.9% |
| | 187,488 | 183,046 | 4,442 | 2.4% |
| Provision for uncollectible accounts | 9,762 | 9,529 | 233 | 2.4% |
| Net patient service revenue | $ 177,726 | $ 173,517 | $ 4,209 | 2.4% |

Gross patient service charges increased $41,507,000 or 5.8% from the prior year primarily due to the rate increase effective on May 10, 2018. Net patient service revenue, before the provision for uncollectible accounts, increased $4,209,000 or 2.4%. Total provision for contractual adjustments as a percent of gross patient service revenues were 75.3% for 2018 and 74.5% in 2017. The slight increase in contractual adjustments as a percent of gross patient service revenues is driven primarily by the shift of volumes from inpatient to outpatient.

Excluded from gross patient service revenue are amounts forgone for patient services under the Medical Center's charity care policy. These amounts were based on established rates for the services provided. Gross charges of approximately $1,079,000 were forgone during 2018 compared to $1,567,000 during 2017. The provision for uncollectible accounts increased to approximately $9,762,000 from the prior year amount of $9,529,000 or 2.4%.

The other operating revenue increase consists primarily of an increase in funding related to Medicaid supplemental funding programs. Revenue recognized from these programs during 2018 totaled $3,918,000 compared to funds earned in 2017 of $5,387,000 resulting in a decrease of approximately $1,468,000 or 27.3%.

The increase in salaries, wages and employee benefits of approximately $1,733,000 or 2.1% from $81,672,000 in 2017 to $83,405,000 in 2018 was due to average merit increases provided to employees during 2018.

The increase in depreciation and amortization expense of approximately $732,000 or 5.0% from $14,712,000 in 2017 to $15,444,000 in 2018 was due to a full year of depreciation expense of the wellness center in 2018 which was placed in service in November 2016.

Supplies and other costs increased approximately $3,706,000 or 4.9% from $76,021,000 in 2017 to $79,727,000 in 2018 due to the increase in costs associated with implants and infusion supplies.

### *Earnings before Interest, Depreciation and Amortization*

Earnings before interest, depreciation and amortization (EBIDA) as of the years ended September 30, are as follows:

| | 2018 | 2017 |
|---|---|---|
| | *(In Thousands)* | |
| **Operating Income** | $ 5,652 | $ 7,206 |
| Plus depreciation and amortization | 15,444 | 14,712 |
| EBIDA | $ 21,096 | $ 21,918 |

The Medical Center did not incur any interest expense as they did not have any outstanding debt as of September 30, 2018 and 2017. EBIDA for the year ended September 30, 2018 decreased $822,000 or 3.8% for the reasons noted above in changes in operating income.

### *Nonoperating Revenues and Expenses*

Nonoperating revenues and expenses consist primarily of investment income, contributions and income from joint ventures. Investment income consists of interest earnings on funds designated by the board of commissioners. Other gains/losses that are not directly related to the provision of healthcare services are also classified as nonoperating income. Nonoperating income decreased approximately $975,000 or 67.8% from the prior year due to decreases in investment income and contributions.

Investment income decreased approximately $478,000 or 86.6% in 2018 as compared to 2017 due to the performance of fixed income securities held by the Medical Center in 2018. In 2017, the Medical Center formed TIC JV, LLC a joint venture in which the Medical Center controls and is reflected as a blended component unit in the Medical Center financial statements. In relation to the formation, contributions of $600,000 for a 15% of ownership in the joint venture were received in 2017. No contributions were received in 2018 related to TIC JV, LLC. Income from the equity method joint venture increased $144,000 or 51.4% from 2017 to 2018.

### *The Medical Center's Cash Flows*

Changes in the Medical Center's operating, noncapital and financing and capital and related financing cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2018 and 2017, discussed earlier. The net cash provided by investing activities is attributable to certain investments reaching maturity and remaining in cash.

### *Capital Assets*

At September 30, 2018 and 2017, the Medical Center had approximately $179,704,000 and $180,986,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2018 and 2017, the Medical Center purchased new property and equipment costing approximately $14,272,000 and $10,362,000, respectively.

### *Economic Factors and Next Year's Budget*

While the annual budget of the Medical Center is not presented with the financial statements, the Medical Center's board and management considered many factors when setting the fiscal year 2020 budget. Although the financial outlook of the Medical Center is excellent, of primary importance in setting the 2020 budget is the state of the economy and the healthcare environment, which takes into account market forces and environmental factors such as:

- Medicare and Medicaid reimbursement changes
- Increased number of uninsured and working poor
- Ongoing competition for services
- Workforce issues primarily in nursing and other clinically skilled positions
- Cost of supplies

- Cost of pharmaceuticals
- Ability to continue recruiting medical staff physicians to maintain the high level of services offered to our service area
- Continued growth of service levels in the ancillary departments

### *Contacting the Medical Center's Financial Management*

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

# Hospital Service District No. 3
## A Component Unit of Lafourche Parish, State of Louisiana
## (d/b/a Thibodaux Regional Medical Center)
### Balance Sheets
### September 30, 2019 and 2018

## Assets

| | 2019 | 2018 |
|---|---|---|
| **Current Assets** | | |
| Cash | $ 19,004,009 | $ 16,750,956 |
| Short-term investments | 125,000 | 125,000 |
| Patient accounts receivable, net of allowance: 2019 – $12,380,000; 2018 – $9,885,000 | 22,282,723 | 20,173,961 |
| Other receivables | 828,924 | 208,479 |
| Supplies | 3,119,379 | 2,860,492 |
| Prepaid expenses and other | 3,601,091 | 1,862,717 |
| Total current assets | 48,961,126 | 41,981,605 |
| **Noncurrent Cash and Investments** | | |
| Board designated for capital expenditures | 155,503,441 | 149,566,356 |
| **Capital Assets, Net** | 180,695,148 | 179,703,903 |
| **Other Assets** | 2,147,233 | 2,932,260 |
| Total assets | $ 387,306,948 | $ 374,184,124 |

## Liabilities, Deferred Inflows of Resources and Net Position

| | 2019 | 2018 |
|---|---|---|
| **Current Liabilities** | | |
| Accounts payable and accrued expenses | $ 15,985,847 | $ 16,528,378 |
| Estimated amounts due to third-party payers | 2,233,746 | 1,462,490 |
| Total current liabilities | 18,219,593 | 17,990,868 |
| **Other Postemployment Benefits Liability** | 3,514,674 | 3,151,400 |
| Total liabilities | 21,734,267 | 21,142,268 |
| **Deferred Inflows of Resources** | 362,603 | 385,877 |
| **Net Position** | | |
| Net investment in capital assets | 179,841,027 | 177,611,021 |
| Unrestricted | 185,369,051 | 175,044,958 |
| Total net position | 365,210,078 | 352,655,979 |
| Total liabilities, deferred inflows of resources and net position | $ 387,306,948 | $ 374,184,124 |

# Hospital Service District No. 3
## A Component Unit of Lafourche Parish, State of Louisiana
## (d/b/a Thibodaux Regional Medical Center)
### Statements of Revenues, Expenses and Changes in Net Position
### Years Ended September 30, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| **Operating Revenues** | | |
| Net patient service revenue, net of provision for uncollectible accounts: 2019 – $13,081,000; 2018 – $9,762,000 | $ 184,523,536 | $177,725,696 |
| Other | 6,491,894 | 6,503,221 |
| Total operating revenues | 191,015,430 | 184,228,917 |
| **Operating Expenses** | | |
| Salaries and wages | 72,963,756 | 69,629,598 |
| Employee benefits | 13,514,125 | 13,775,861 |
| Professional fees and services | 8,801,181 | 7,918,709 |
| Supplies and other | 45,866,317 | 44,927,372 |
| Purchased services | 16,871,107 | 15,897,695 |
| Other | 11,074,302 | 10,983,471 |
| Depreciation and amortization | 16,147,888 | 15,443,822 |
| Total operating expenses | 185,238,676 | 178,576,528 |
| **Operating Income** | 5,776,754 | 5,652,389 |
| **Nonoperating Revenues (Expenses)** | | |
| Investment income | 6,366,270 | 73,775 |
| TIC JV distributions | (63,558) | (62,349) |
| Noncapital grants and contributions received | 28,928 | 55,551 |
| Noncapital grants and contributions expended | (32,113) | (22,783) |
| Loss from disposal of capital assets | (93,887) | (5,754) |
| Income from joint venture | 571,705 | 425,247 |
| Total nonoperating revenues | 6,777,345 | 463,687 |
| **Increase in Net Position** | 12,554,099 | 6,116,076 |
| **Net Position, Beginning of Year** | 352,655,979 | 346,539,903 |
| **Net Position, End of Year** | $ 365,210,078 | $352,655,979 |

# Hospital Service District No. 3
## A Component Unit of Lafourche Parish, State of Louisiana
## (d/b/a Thibodaux Regional Medical Center)
### Statements of Cash Flows
### Years Ended September 30, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| **Operating Activities** | | |
| Receipts from and on behalf of patients and third-party payers | $ 183,108,084 | $177,363,517 |
| Payments to suppliers and contractors | (83,365,554) | (82,436,954) |
| Payments to employees | (85,812,261) | (82,710,913) |
| Other receipts, net | 5,871,449 | 7,187,409 |
| Net cash provided by operating activities | 19,801,718 | 19,403,059 |
| **Noncapital and Financing Activities** | | |
| Grants and contributions received | 28,928 | 55,551 |
| Grants and contributions expended | (32,113) | (22,783) |
| Distributions to TIC JV shareholders | (63,558) | (62,349) |
| Net cash used in noncapital and financing activities | (66,743) | (29,581) |
| **Capital and Related Financing Activities** | | |
| Proceeds from the sale of capital assets | 20,756 | 16,870 |
| Purchase of capital assets | (18,492,537) | (12,894,930) |
| Net cash used in capital and related financing activities | (18,471,781) | (12,878,060) |
| **Investing Activities** | | |
| Investment income | 2,754,073 | 73,775 |
| Distributions received from joint venture | 560,674 | 472,781 |
| Purchase of investments | (37,220,747) | (43,158,621) |
| Proceeds from disposition of investments | 35,715,285 | 45,078,256 |
| Net cash provided by investing activities | 1,809,285 | 2,466,191 |
| **Increase in Cash** | 3,072,479 | 8,961,609 |
| **Cash, Beginning of Year** | 76,239,833 | 67,278,224 |
| **Cash, End of Year** | $ 79,312,312 | $ 76,239,833 |
| **Reconciliation of Cash to the Balance Sheets** | | |
| Cash | $ 19,004,009 | $ 16,750,956 |
| Cash in noncurrent cash and investments | 60,308,303 | 59,488,877 |
| Total cash | $ 79,312,312 | $ 76,239,833 |

# Hospital Service District No. 3
## A Component Unit of Lafourche Parish, State of Louisiana
## (d/b/a Thibodaux Regional Medical Center)
### Statements of Cash Flows (Continued)
### Years Ended September 30, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| **Reconciliation of Operating Income to** | | |
| **Net Cash Provided by Operating Activities** | | |
| Operating income | $ 5,776,754 | $ 5,652,389 |
| Depreciation and amortization | 16,147,888 | 15,443,822 |
| Forgiveness of physician note receivables | 754,876 | - |
| Provision for uncollectible accounts | 13,081,171 | 9,762,318 |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable, net | (15,189,933) | (10,844,374) |
| Estimated amounts due to third-party payers | 771,256 | 783,176 |
| Accounts payable and accrued expenses | 696,230 | (975,257) |
| Other postemployment benefits (OPEB) liability | 363,274 | (33,156) |
| OPEB deferred inflows of resources | (23,274) | 385,877 |
| Other assets and liabilities | (2,576,524) | (771,736) |
| Net cash provided by operating activities | $ 19,801,718 | $ 19,403,059 |
| **Supplemental Cash Flows Information** | | |
| Capital asset additions in accounts payable | $ 854,121 | $ 2,092,882 |

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

### *Nature of Operations and Reporting Entity*

Hospital Service District No. 3, a Component Unit of Lafourche Parish, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (Medical Center) is a 185 bed regional medical center located in Thibodaux, Louisiana. The Medical Center is a component unit of Lafourche Parish (Parish). The Parish appoints a five-member board of commissioners who operate the Medical Center. The Medical Center primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Parish area.

The Medical Center's financial statements include the operations of Thibodaux Regional Surgical Services, Inc. (TRSS). TRSS is a holding company that owns a 30% investment in Thibodaux Surgery Center, LLC, an ambulatory surgery center. TRSS is presented as a blended component unit due to its relationship with the Medical Center.

The Medical Center's financial statements include the operations of TIC JV, LLC (TIC). TIC leases and subleases the imaging center to the Medical Center. TIC is owned 85% by the Medical Center and 15% by physician owners and is presented as a blended component unit due to its relationship with the Medical Center.

### *Basis of Accounting and Presentation*

The accompanying financial statements of the Medical Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, 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 Medical Center first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

### *Use of Estimates*

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

### *Cash*

The Medical Center excludes amounts restricted as to use by board designation from cash. Noncurrent cash includes cash balances at September 30, 2019 and 2018 that were restricted by board designation. The Medical Center treats restricted and unrestricted cash equivalents as investments.

### *Risk Management*

The Medical Center is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health, workers' compensation and medical malpractice claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

### *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, an ambulatory surgery center which provides services to the community. This investment is carried using the equity method of accounting. Using this method of accounting, TRSS's share of net income is recognized as non-operating revenue in the Medical Center's statement of revenues, expenses and changes in net position and added to the investment account. The investment is also reduced for any dividends received. The investment in the joint venture is included in other assets on the balance sheets.

### *Patient Accounts Receivable*

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

### *Supplies*

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

### *Capital Assets*

Capital assets are recorded at cost at the date of acquisition, or 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 Medical Center:

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

### *Compensated Absences*

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

### *Postemployment Benefits Other Than Pensions*

The Medical Center has 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 have been determined on the same basis as they are reported by the OPEB. For this purpose, the Medical Center recognizes benefit payments when due and payable in accordance with the benefit terms.

### *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 Medical Center 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, 2019 and 2018 the Medical Center had no outstanding long-term debt but did have accounts payable related to 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*

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

### *Charity Care*

The Medical Center provides care without charge to patients who are unable to pay for services. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

### *Income Taxes*

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

## Note 2: Net Patient Service Revenue

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

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare administrative contractor. The Medical Center's cost reports have been audited by the Medicare administrative contractor through September 30, 2015.
- **Medicaid** – Inpatient services rendered to Medicaid program beneficiaries are paid based on prospectively determined rates. Outpatient services are paid under either a cost reimbursement methodology or using defined allowable charges. The Medical Center is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid administrative contractor. The Medical Center's cost reports have been audited by the Medicaid administrative contractor through September 30, 2012.

Approximately 54% of net patient service revenue is from participation in the Medicare and state sponsored Medicaid programs for both years ended September 30, 2019 and 2018. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

## Note 3: Louisiana Medicaid Supplemental Payment Programs

The Medical Center receives 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 Medical Center received supplemental payments for services provided by physicians in recognition for providing services to Medicaid patients. During the years ended September 30, 2019 and 2018, total revenues, net of expenses, recognized by the Medical Center related to this agreement was approximately $1,001,000 and $1,124,000, respectively. These receipts and payments are recorded as net patient service revenue in the statements of revenues, expenses and changes in net position. Under a separate agreement, the Medical Center entered into a cooperative endeavor agreement with other health care providers for the purpose of ensuring adequate healthcare services are available for underserved, non-rural populations. During the years ended September 30, 2019 and 2018, total revenues, net of expenses, recognized by the Medical Center related to this agreement was approximately $4,506,000 and $2,794,000, respectively. These receipts and payments are recorded as net patient service revenue in the statements of revenues, expenses and changes in net position.

## Note 4: 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 Medical Center's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance or other qualified investments in the state of Louisiana. At September 30, 2019 and 2018, with the exception of approximately $3,707,000 and $3,470,000 respectively, held by TIC, a blended component unit of the Medical Center, the Medical Center's deposits were either insured or collateralized.

### *Investments*

The Medical Center 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.

At September 30, 2019 and 2018, the Medical Center had the following investments and maturities:

| | | September 30, 2019 | | | |
|---|---|---|---|---|---|
| | | Maturities in Years | | | |
| Type | Fair Value | 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 | - | - | - |
| | $ 93,195,138 | $ 13,779,644 | $ 46,110,565 | $ 16,506,558 | $ 16,798,371 |

| | | September 30, 2018 | | | |
|---|---|---|---|---|---|
| | | Maturities in Years | | | |
| Type | Fair Value | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| U.S. Treasury obligations | $ 36,230,314 | $ 6,573,606 | $ 22,772,698 | $ 6,884,010 | $ - |
| U.S. agencies obligations | 47,526,388 | 10,344,743 | 19,239,216 | 4,357,007 | 13,585,422 |
| Corporate bonds | 3,821,994 | 842,784 | 2,979,210 | - | - |
| Money market mutual funds | 359,192 | 359,192 | - | - | - |
| Municipal bonds | 139,591 | 139,591 | - | - | - |
| | $ 88,077,479 | $ 18,259,916 | $ 44,991,124 | $ 11,241,017 | $ 13,585,422 |

*Interest Rate Risk* – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Medical Center'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 Medical Center'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. The Medical Center's debt securities of the U.S agencies are rated AA+ by Standards and Poor's rating agency. The Medical Center's investments in corporate bonds were rated A to AA by Standard & Poor's rating agency. The Medical Center's investments in municipal bonds were rated AA- by Standard & Poor's rating agency. The Medical Center's investments in money market mutual funds were rated AAAm by Standard & Poor's and Aaa by Moody's Investors Service. The Medical Center 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 Medical Center 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 Medical Center'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, 2019 and 2018, management believes the Medical Center complies with this policy.

The following table reflects the Medical Center's investments in single issuers that represent more than 5% of total investments:

| | 2019 | 2018 |
|---|---|---|
| Federal Home Loan Bank | 10.3% | 17.5% |
| Federal National Mortgage Association | 12.0% | 10.8% |
| Federal Home Loan Mortgage Corporation | 11.0% | 13.2% |
| Government National Mortgage Association | 8.4% | 9.2% |

The Medical Center'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 Medical Center 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 Medical Center'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 Medical Center holds the following deposits and investments:

| | 2019 | 2018 |
|---|---|---|
| Cash deposits, operating funds | $ 19,004,009 | $ 16,750,956 |
| Cash deposits, board designated funds | 56,640,229 | 55,831,627 |
| Certificates of deposits, short-term investments | 125,000 | 125,000 |
| Certificates of deposits, board designated funds | 2,000,000 | 2,000,000 |
| Money market deposits, board designated funds | 3,668,074 | 3,657,250 |
| Money market mutual funds, board designated funds | 6,812,407 | 359,192 |
| Investments, board designated funds | 86,382,731 | 87,718,287 |
| | $ 174,632,450 | $ 166,442,312 |

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

| | 2019 | 2018 |
|---|---|---|
| Cash | $ 19,004,009 | $ 16,750,956 |
| Short-term investments | 125,000 | 125,000 |
| Board designated for capital expenditures | 155,503,441 | 149,566,356 |
| | $ 174,632,450 | $ 166,442,312 |

## Note 5: Patient Accounts Receivable

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

| | 2019 | 2018 |
|---|---|---|
| Medicaid | $ 1,521,019 | $ 1,825,877 |
| Medicare | 8,980,208 | 7,828,306 |
| Other third-party payers | 10,950,167 | 9,942,818 |
| Patients | 13,211,352 | 10,461,460 |
| | 34,662,746 | 30,058,461 |
| Less allowance for uncollectible accounts | 12,380,023 | 9,884,500 |
| | $ 22,282,723 | $ 20,173,961 |

## Note 6: Capital Assets

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

| | 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 | $ 179,703,903 | $ 1,105,888 | $ (114,643) | $ - | $ 180,695,148 |

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
| Land | $ 7,736,002 | $ - | $ - | $ - | $ 7,736,002 |
| Land improvements | 5,815,630 | - | - | 467,400 | 6,283,030 |
| Buildings and improvements | 218,549,598 | 805,345 | - | 1,683,830 | 221,038,773 |
| Equipment | 95,779,690 | 8,987,777 | (5,858,097) | 87,240 | 98,996,610 |
| Construction in progress | 1,736,487 | 4,390,881 | (760) | (2,238,470) | 3,888,138 |
| | 329,617,407 | 14,184,003 | (5,858,857) | - | 337,942,553 |
| Less accumulated depreciation | (148,631,061) | (15,443,822) | 5,836,233 | - | (158,238,650) |
| Capital assets, net | $ 180,986,346 | $ (1,259,819) | $ (22,624) | $ - | $ 179,703,903 |

As of September 30, 2019, the Medical Center had construction commitments outstanding of $37,399,000 related to a construction project.

## Note 7: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at September 30, 2019 and 2018, consisted of:

| | 2019 | 2018 |
|---|---|---|
| Payable to suppliers and contractors | $ 5,674,377 | $ 6,464,582 |
| Payable to employees (including payroll taxes and benefits) | 6,097,162 | 6,171,902 |
| Estimated self insurance costs (*Note 8*) | 3,002,441 | 2,602,081 |
| Patient credit balances | 1,211,867 | 1,289,813 |
| | $ 15,985,847 | $ 16,528,378 |

## Note 8: Risk Management

### *Medical Malpractice and General Liability Risks*

The Medical Center participates 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 Medical Center is 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 Medical Center's incident reporting system are accrued based on estimates that incorporate the Medical Center's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. It is reasonably possible that the Medical Center's estimate of losses will change by a material amount in the near term.

Activity in the Medical Center's accrued medical malpractice claims liability during 2019 and 2018 is summarized as follows:

| | 2019 | 2018 |
|---|---|---|
| Balance, beginning of year | $ 932,632 | $ 902,632 |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 310,458 | 259,983 |
| Claims and expenses paid | (220,458) | (229,983) |
| Balance, end of year | $ 1,022,632 | $ 932,632 |

The Medical Center is 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, 2019 and 2018, the Medical Center accrued $395,866 and $375,866, respectively, as reserves for self-insurance retentions on outstanding general liability claims.

### *Employee Health and Workers' Compensation Claims*

Substantially all of the Medical Center's employees and their dependents are eligible to participate in the Medical Center's employee health insurance plan. The Medical Center is self-insured for health claims of participating employees and dependents up to an annual stop-loss limit up to $150,000 per employee. Commercial stop-loss insurance coverage is purchased for claims in excess of these amounts. A provision is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Medical Center's estimate will change by a material amount in the near term.

The Medical Center is also self-insured for workers' compensation claims up to $100,000 per claim. A provision is accrued for self-insured workers compensation claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Medical Center's estimate will change by a material amount in the near term.

Activity in the Medical Center's accrued employee health and workers' compensation claims liability during 2019 and 2018, is summarized as follows:

| | 2019 | 2018 |
|---|---|---|
| Balance, beginning of year | $ 1,293,583 | $ 1,472,892 |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 5,582,344 | 6,005,366 |
| Claims and expenses paid | (5,291,984) | (6,184,675) |
| Balance, end of year | $ 1,583,943 | $ 1,293,583 |

## Note 9: Operating Leases

Operating leases for medical and office equipment expire in various years through 2023. Rental payments include minimum rentals, plus contingent rentals based on revenues. Rental expense for the years ended September 30, 2019 and 2018 totaled approximately $1,192,000 and $1,188,000, respectively.

Future minimum lease payments at September 30, 2019, were:

| | |
|---|---|
| 2020 | $ 614,564 |
| 2021 | 312,881 |
| 2022 | 131,766 |
| 2023 | 16,078 |
| | $ 1,075,289 |

The Medical Center leases office space in a medical office building and clinical facilities, generally to members of its medical staff, under operating leases with terms ranging up to five years. Rental income totaled approximately $1,405,000 and $1,410,000, respectively, for the years ended September 30, 2019 and 2018.

Minimum future rentals receivable under noncancellable operating leases at September 30, 2019, were:

| | |
|---|---|
| 2020 | $ 1,340,257 |
| 2021 | 600,725 |
| 2022 | 232,693 |
| | $ 2,173,675 |

## Note 10: Other Postemployment Benefits (OPEB) Health Care Plan

### *Plan Description and Benefits Provided*

The OPEB is sponsored by the Medical Center for retirees meeting certain criteria. The OPEB allows retirees to receive health and vision insurance for themselves (and spouses and dependents, as applicable) through the Medical Center'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 are determined by the Medical Center's board of commissioners and can be revised or amended at any time. The Medical Center funds these benefits on a pay-as-you-go basis, meaning the Medical Center will 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 and 2018 liability and expense. The information that follows was determined as of a valuation date of September 30, 2018.

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefit payments | 2 |
| Active employees | 1,243 |
| | 1,245 |

### *Total OPEB Liability*

The Medical Center's total OPEB liability of $3,514,674 and $3,151,400 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 reflects 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 are from the SOA RP-2014 generational table scaled using MP-2018 and applied on a gender-specific basis.

No formal actuarial experience studies have been performed.

### *Changes in the Total OPEB Liability*

| | 2019 | 2018 |
|---|---|---|
| Total OPEB liability, beginning of year | $ 3,151,400 | $ 3,184,556 |
| Changes for the year: | | |
| Service cost | 261,925 | 261,925 |
| Interest | 124,908 | 124,908 |
| Changes of assumptions or other inputs (discount rate change) | - | (409,151) |
| Benefit payments | (23,559) | (10,838) |
| Net changes | 363,274 | (33,156) |
| Total OPEB liability, end of year | $ 3,514,674 | $ 3,151,400 |

### *Sensitivity of the Medical Center's Total OPEB Liability to Changes in the Discount Rate and Health Care Cost Trend Rates*

The total OPEB liability has been calculated using a discount rate of 4.24%. The following table presents the total OPEB liability of the Medical Center using a discount rate 1% higher and 1% lower than the current discount rate.

| | 1% Decrease (3.24%) | Current Discount Rate (4.24%) | 1% Increase (5.24%) |
|---|---|---|---|
| Total OPEB Liability | $ 4,305,794 | $ 3,514,674 | $ 2,909,007 |

The following presents the total Medical Center's OPEB liability, as well as what the Medical Center's OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% higher and 1% lower than the current healthcare cost trend rates.

| | 1% Decrease | Healthcare Cost Trend Rates (7.0% decreasing to 4.50%) | 1% Increase |
|---|---|---|---|
| Total OPEB Liability | $ 2,768,930 | $ 3,514,674 | $ 4,542,751 |

### *OPEB Expense and Deferred Inflows of Resources Related to OPEB*

For the years ended September 30, 2019 and 2018, the Medical Center recognized OPEB expense of $340,000 and $363,586, respectively. At September 30, 2019 and 2018, the Medical Center reported deferred inflows of resources related to the OPEB from changes of assumptions and other inputs of $362,603 and $385,877, respectively. There were no deferred outflows of resources related to the OPEB for the years ended September 30, 2019 and 2018.

Amounts reported as deferred inflows of resources at September 30, 2019, related to OPEB will be recognized in OPEB expense as follows:

| | |
|---|---|
| 2020 | $ (23,247) |
| 2021 | (23,247) |
| 2022 | (23,247) |
| 2023 | (23,247) |
| 2024 | (23,247) |
| Thereafter | (246,368) |
| | $ (362,603) |

## Note 11: Retirement Plans

The Medical Center has three defined contribution pension plans that cover substantially all employees of the Medical Center. One plan is organized under Internal Revenue Code (IRC) Section 457(b), which receives employee pre-tax contributions for Medical Center employees.

The other two defined contributions plans are organized under IRC Section 401(a), one of which is an employee plan, and the other of which is an additional physician/executive plan. All part time and full time employees and physicians are eligible and are enrolled into the employee plan after one year of employment with the Medical Center. The Medical Center, at its option, may make contributions to the employee plan based on a discretionary percentage of eligible employees' base compensation, as defined. As of September 30, 2019 and 2018, the Medical Center's discretionary contribution percentages to the employee plan was calculated as 4% of eligible compensation for both years.

All employed physicians are eligible and automatically enrolled into the physician/executive 401(a) plan. The Medical Center, at its discretion, makes contributions to this plan for physicians and executives that have exceeded the compensation limit, as defined by the IRC, for the employee 401(a) plan to ensure that the full 4% of eligible compensation is contributed by the Medical Center for employed physicians and executives. Additionally, this plan allows employed physicians and executives to reduce their salary and the Medical Center will contribute the reductions into the 401(a) physician/executive plan.

Employer contributions into the employee 401(a) plan vest at 20% per year until they reach 100% at end of year five for both plans. Employer contributions into the physician/executive 401(a) plan and employee contributions into the 457(b) plan are immediately vested.

Retirement contributions made by the Medical Center to both 401(a) plans for the years ended September 30, 2019 and 2018 totaled approximately $2,188,000 and $2,466,000, respectively.

## Note 12: Investment in Joint Venture

The Medical Center originally purchased a 50% ownership interest in a joint venture, Thibodaux Surgery Center, LLC, that provides surgical and endoscopy services. In 2014, the Medical Center sold 40% of their ownership, reducing the ownership as of September 30, 2019 and 2018 to 30%. Financial position and results of operations of the joint venture are summarized below:

| | 2019 | 2018 |
|---|---|---|
| Current assets | $ 1,737,040 | $ 1,410,511 |
| Property and equipment, net | 432,052 | 327,565 |
| Total assets | $ 2,169,092 | $ 1,738,076 |
| Current liabilities | $ 608,516 | $ 371,733 |
| Long-term liabilities | 57,867 | 151,263 |
| Total liabilities | 666,383 | 522,996 |
| Members' capital | 1,502,709 | 1,215,080 |
| Total liabilities and members' capital | $ 2,169,092 | $ 1,738,076 |
| Net patient service revenue | $ 8,585,160 | $ 7,721,683 |
| Operating expenses | (6,396,340) | (5,739,258) |
| Non-operating income | (32,306) | (25,495) |
| Net income | $ 2,156,514 | $ 1,956,930 |

The carrying amount of the Medical Center's investment in the joint venture was $375,555 and $364,524 at September 30, 2019 and 2018, respectively.

Income from the Medical Center's investment in the joint venture was $571,705 and $425,247 for the years ended September 30, 2019 and 2018, respectively.

Additionally, the Medical Center leases office space to Thibodaux Surgery Center, LLC under an operating lease with an initial expiration date of December 31, 2018 which has annual renewals and has been extended through December 31, 2020. Amounts received under the lease agreements for the years ended September 30, 2019 and 2018, totaled approximately $459,000 for both years.

## Note 13: Litigation

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

## Note 14: 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:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Carrying Amount | 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 | $ 93,195,138 | $ 48,302,043 | $ 44,893,095 | $ - |
| **Other assets by fair value level** | | | | |
| U.S. agency obligations | $ 210,380 | $ - | $ 210,380 | $ - |
| **September 30, 2018** | | | | |
| **Investments by fair value level** | | | | |
| U.S. Treasury obligations | $ 36,230,314 | $ 36,230,314 | $ - | $ - |
| U.S. agency obligations | 47,526,388 | - | 47,526,388 | - |
| Corporate bonds | 3,821,994 | - | 3,821,994 | - |
| Money market mutual funds | 359,192 | 359,192 | - | - |
| Municipal bonds | 139,591 | - | 139,591 | - |
| Total investments by fair value level | $ 88,077,479 | $ 36,589,506 | $ 51,487,973 | $ - |
| **Other assets by fair value level** | | | | |
| U.S. agency obligations | $ 119,320 | $ - | $ 119,320 | $ - |

### *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 Medical Center did not have any Level 3 investments at September 30, 2019 and 2018.

## Note 15: Hospital Operating and Lease Agreements

Subsequent to year end, the Medical Center entered into certain lease and operating agreements effective as of October 1, 2019, as part of a transfer of the responsibility of the management and operation of the hospital operations from the Medical Center to Thibodaux Regional Health System (TRHS), a non-profit organization formed in November 2018.

Effective October 1, 2019, the Medical Center began leasing certain capital assets and transferred working capital and hospital operations to TRHS in exchange for cash to be paid through a note receivable . The Medical Center retained certain real estate unrelated to hospital operations. TRHS will provide substantially all of the management and direction of the hospital operations, subject only to the Medical Center's constitutional and statutory duties to provide or cause to provide medical and hospital care to Parish's need inhabitants.

# Required Supplementary Information

# Hospital Service District No. 3
## A Component Unit of Lafourche Parish, State of Louisiana
## (d/b/a Thibodaux Regional Medical Center)
### Schedule of Changes in the Medical Center's Total OPEB Liability
### Years Ended September 30,

| | 2019 | 2018 |
|---|---|---|
| **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) |
| **Net change in total OPEB liability** | 363,274 | (33,156) |
| **Total OPEB liability—beginning** | 3,151,400 | 3,184,556 |
| **Total OPEB liability—ending** | $ 3,514,674 | $ 3,151,400 |

**Notes to Schedule:**

***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. All amounts are in thousands, unless otherwise indicated.

# Supplementary Information

# Hospital Service District No. 3
## A Component Unit of Lafourche Parish, State of Louisiana
## (d/b/a Thibodaux Regional Medical Center)
### Schedule of Compensation, Reimbursements, Benefits and Other Payments to the Chief Executive Officer
### Year Ended September 30, 2019

**Chief Executive Officer - Greg Stock**

| Purpose | | Amount |
|---|---|---|
| Salary | $ | 502,323 |
| Incentive compensation | | 80,000 |
| Benefits-insurance | | 10,725 |
| Benefits-retirement | | 17,154 |
| Vehicle provided by government | | 9,167 |
| Conference travel (including continuing education) | | 22,464 |
| Special meals (physician recruitment) | | 2,038 |

BKD
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972.702.8262 | Fax 972.702.0673 | bkd.com

# 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
(d/b/a Thibodaux Regional Medical Center)
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 (d/b/a Thibodaux Regional Medical Center) (Medical Center), which comprise the statement of financial position as of September 30, 2019 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 17, 2020.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Medical Center'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 Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 the Medical Center'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and 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 17, 2020

# Hospital Service District No. 3
## A Component Unit of Lafourche Parish, State of Louisiana
## (d/b/a Thibodaux Regional Medical Center)

Independent Accountant's Report on

Applying Agreed-Upon Procedures

For the Year Ended September 30, 2019

BKD
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# Independent Accountant's Report on Applying Agreed-Upon Procedures

Board of Commissioners
Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)
Thibodaux, Louisiana

We have performed the procedures enumerated in the attachment to this report, which were agreed to by Hospital Service District No. 3, a Component Unit of Lafourche Parish, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (Medical Center), and the Louisiana Legislative Auditor (LLA) on the control and compliance areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the year ended September 30, 2019. The management of the Medical Center is responsible for the control and compliance areas identified in the LLA's SAUPs. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in the attachment to this report for the purpose for which this report has been requested of for any other purpose.

The procedures and findings obtained are described in the attachment to this report.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. We were not engaged to and did not conduct an examination or a review, the objective of which would be the expression of an opinion or conclusion, respectively, on those control and compliance areas identified in the LLA's 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 control and compliance areas identified in the LLA's 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.

BKD, LLP

Dallas, Texas
March 17, 2020

### *Written Policies and Procedures*

1. Obtain and inspect the Medical Center's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the Medical Center'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/Collections***, 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.

k) ***Disaster Recovery/Business Continuity***, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.

**Results:** The Medical Center did not have written policies and procedures for the following:

- Budgeting – Amending the budget
- Contracting – Legal review
- Travel and Expense – Dollar thresholds by category of expense
- Debt Service – Not applicable as the Medical Center does not have debt
- Disaster Recovery/Business Continuity – Application of software patches and updates

**Management's Response:** Management will consider amending internal policies.

***Bank Reconciliations***

2. 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 each selected 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.

**Results:** Obtained a listing of bank accounts from management and management's representation that the listing was complete and selected five accounts for testing.

The Medical Center maintained monthly reconciliations for four of the five accounts for the month selected. Reconciliations for these accounts were prepared within 2 months of the related statement closing date, review by a member of management who does not handle cash or issue checks and reflected items outstanding have been researched.

For the remaining account selected, formal monthly reconciliations are not performed as this zero balance account is swept daily to the operating account which is reconciled monthly.

**Management's Response:** Due to the nature of the account being a zero balance account, Management does not feel a reconciliation of this account type is necessary. Any and all bank activity is automatically swept by the bank daily into an operating account that is reconciled on a monthly basis.

THIBODAUX REGIONAL®
MEDICAL CENTER

March 17, 2020

Office of Legislative Auditor
1600 North Third Street
PO Box 94937
Baton Rouge, LA 70804-9397

Re: Hospital Service District No. 3 of Lafource Parish, d/b/a Thibodaux Regional Medical Center
Status of Prior Year Findings

To Whom It May Concern:

In connection with the completion of our audit for the year ended September 30, 2019, please find the below status of the prior year finding for the audit for the year ended September 30, 2018.

**Finding Description:** 2018-01 Statement of Cash Flows Restatement

**Responsible Personnel:** Chief Financial Officer, Assistant Chief Financial Officer

**Corrective Action Taken:** The Medical Center implemented a process where management reviews all accounts and balances included in board designated noncurrent cash and investments, identified all cash balances within those amounts and ensured amounts are included in the statement of cash flows.

**Status:** Resolved

Should you have any questions, please contact me at (985) 493-4721 or by email at steve.gaubert@thibodaux.com.

Sincerely,

Steve Gaubert

Steve Gaubert

Chief Financial Officer

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