

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, 2017 and 2016

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)
September 30, 2017 and 2016

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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, 2017 and 2016, 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 Hospital Service District No. 3, a Component Unit of Lafourche Parish, State of Louisiana (d/b/a Thibodaux Regional Medical Center) as of September 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the 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 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 audit 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.

Board of Commissioners
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2018, on our consideration of the Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Hospital Service District No. 3's, a component unit of Lafourche Parish, State of Louisiana (d/b/a Thibodaux Regional Medical Center) internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
March 29, 2018

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)
Management's Discussion and Analysis
Years Ended September 30, 2017 and 2016

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, 2017 and 2016. 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 all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Cash Flows

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

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
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Management's Discussion and Analysis (Continued)
Years Ended September 30, 2017 and 2016

2017 Financial Highlights

- Cash and investments increased by approximately \$9,601,000 or 6.4% in 2017 compared to 2016
- The Medical Center's net position increased approximately \$8,645,000 or 2.5% in 2017 compared to 2016
- The Medical Center reported operating income in 2017 of approximately \$7,206,000 and in 2016 of approximately \$6,050,000 an increase of \$1,156,000 or 19.1%
- Net nonoperating revenues increased by approximately \$272,000 or 23.3% in 2017 compared to 2016

The Medical Center's Net Position

The Medical Center's net position is the difference between its assets and liabilities reported in the balance sheet. The Medical Center's net position increased by approximately \$8,645,000 or 2.5% in 2017 over 2016, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	<u>2017</u>	<u>2016</u>
	<i>(In Thousands)</i>	
Assets		
Patient accounts receivable, net	\$ 19,092	\$ 18,950
Other current assets	22,933	15,561
Capital assets, net	180,987	185,363
Cash and investments, noncurrent	141,774	138,767
Other noncurrent assets	<u>1,833</u>	<u>1,525</u>
Total assets	<u>\$ 366,619</u>	<u>\$ 360,166</u>
Liabilities		
Total current liabilities	<u>\$ 18,332</u>	<u>\$ 20,524</u>
Net Position		
Net investment in capital assets	180,183	181,816
Unrestricted	<u>168,104</u>	<u>157,826</u>
Total net position	<u>348,287</u>	<u>339,642</u>
Total liabilities and net position	<u>\$ 366,619</u>	<u>\$ 360,166</u>

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Management's Discussion and Analysis (Continued)
Years Ended September 30, 2017 and 2016

A significant change in the Medical Center's assets in 2017 is the increase in cash and investments and decrease in net capital assets. Cash and investments increased by approximately \$9,601,000 or 6.4% in 2017 over 2016. The increase in cash and investments results primarily from the Medical Center completing construction of the Wellness Center in November 2016 therefore resulting in accumulation of operating income. Net capital assets decreased by approximately \$4,376,000 or 2.4% in 2017 over 2016. The decrease in net capital assets is primarily due to the completion of the Wellness Center in November 2016 and the related depreciation recorded in the current year.

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

In 2017, the Medical Center's net position increased by \$8,645,000 or 2.5% as shown in Table 2. This increase is made up of several different components and represents an increase of 19.8% compared with the increase in net position for 2016 of approximately \$7,217,000.

Table 2: Operating Results and Changes in Net Position

	2017	2016
	<i>(In Thousands)</i>	
Operating Revenues		
Net patient service revenue	\$ 173,517	\$ 162,197
Other	6,094	3,808
	<u>179,611</u>	<u>166,005</u>
Operating Expenses		
Salaries, wages and employee benefits	81,672	80,757
Supplies, professional fees and purchased services	76,021	69,086
Depreciation and amortization	14,712	10,112
	<u>172,405</u>	<u>159,955</u>
Operating Income	<u>7,206</u>	<u>6,050</u>
Nonoperating Revenues, Net	<u>1,439</u>	<u>1,167</u>
Increase in Net Position	<u>\$ 8,645</u>	<u>\$ 7,217</u>

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Management's Discussion and Analysis (Continued)
Years Ended September 30, 2017 and 2016

Operating Income

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

The operating income increased in 2017 by approximately \$1,156,000 or 19.1% as compared to 2016. The primary components of the increased operating income are shown below:

- An increase in net patient service revenue of approximately \$11,320,000 or 7.0%
- An increase in other operating revenues of approximately \$2,286,000 or 60.0%
- An increase in depreciation and amortization of \$4,600,000 or 45.5%
- An increase in supplies and other costs of \$6,935,000 or 10.0%

During fiscal year 2017, 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, 2017 and 2016:

	2017	2016	Dollar Change	Percent
	<i>(In Thousands)</i>			
Gross patient service revenue	\$ 718,094	\$ 647,258	\$ 70,836	10.9%
Contractual and other adjustments				
Medicare	288,591	260,581	28,010	10.7%
Managed Care	128,962	113,985	14,977	13.1%
Medicaid	93,073	62,737	30,336	48.4%
Other	24,422	27,492	(3,070)	(11.2%)
Total contractual adjustments	535,048	464,795	70,253	15.1%
Provision for uncollectible accounts	183,046	182,463	583	0.3%
	9,529	20,266	(10,737)	(53.0%)
Net patient service revenue	\$ 173,517	\$ 162,197	\$ 11,320	7.0%

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Management's Discussion and Analysis (Continued)
Years Ended September 30, 2017 and 2016

Gross patient service charges increased \$70,836,000 or 10.9% from the prior year primarily due to the rate increase applied on May 10, 2017 and increases in volumes. Net patient service revenue, before provision for uncollectible accounts, increased \$583,000 or 0.3%. Total provision for contractual adjustments as a percent of gross patient service revenues were 74.5% for 2017 and 71.8% in the prior year. The increase in contractual adjustments as a percent of gross patient service revenues is driven primarily by effects of the expansion of the Medicaid program in the state of Louisiana effective July 1, 2016.

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 \$1,567,000 were forgone during 2017 compared to \$2,449,000 during 2016. The provision for uncollectible accounts decreased to approximately \$9,529,000 from the prior year amount of \$20,266,000. The decrease in bad debts and forgone charges for the Medical Center's charity care policy while gross charges are increasing is driven primarily by effects of the expansion of the Medicaid program in the state of Louisiana effective July 1, 2016 as more patients qualified for insurance coverage in 2017.

The other operating revenue increase consists primarily of an increase in funding related to Medicaid supplemental funding programs. Revenue recognized from these programs during 2017 totaled \$5,387,000 compared to funds awarded in 2016 of \$2,676,000 resulting in an increase of approximately \$2,711,000 or 101.3%.

The increase in depreciation and amortization expense of approximately \$4,600,000 or 45.5% from \$10,112,000 in 2016 to \$14,712,000 in 2017 was due to the construction of the wellness center being completed and placed in service in November 2016.

Supplies and other costs increased approximately \$6,935,000 or 10% from \$69,086,000 in 2016 to \$76,021,000 in 2017 due to additional volumes in 2017.

Earnings before Interest, Depreciation and Amortization

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

	2017	2016
	<i>(In Thousands)</i>	
Operating Income	\$ 7,206	\$ 6,050
Plus depreciation and amortization	<u>14,712</u>	<u>10,112</u>
 EBIDA	 <u>\$ 21,918</u>	 <u>\$ 16,162</u>

The Medical Center did not incur any interest expense as they did not have any outstanding debt as of September 30, 2017 and 2016. EBIDA for the year ended September 30, 2017 increased \$5,756,000 or 35.6% for the reasons noted above in changes in operating income.

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Years Ended September 30, 2017 and 2016

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, contributions from joint venture 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 \$272,000 or 23.3% from the prior year due to increases in investment income, contributions and a reduction in income from equity method joint venture.

Investment income increased approximately \$177,000 or 47.3% in 2017 as compared to 2016 due to the Medical Center investing additional funds in fixed income securities in the current year. 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. Income from equity method joint venture decreased \$490,000 or 63.6% from 2016 to 2017.

The Medical Center's Cash Flows

Changes in the Medical Center's operating and noncapital and financing cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2017 and 2016, discussed earlier. The decrease in capital and related financing activities and investing activities is due to the Medical Center completing construction on the Wellness Center in November 2016, therefore reducing related cash outlays for purchase of capital assets and sales of investments to fund the purchases of capital assets.

Capital Assets

At September 30, 2017 and 2016, the Medical Center had approximately \$180,986,000 and \$185,363,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2017 and 2016, the Medical Center purchased new property and equipment costing approximately \$10,362,000 and \$32,670,000, respectively.

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2016 Financial Highlights

- Cash and investments decreased by approximately \$14,617,000 or 8.9% in 2016 compared to 2015
- The Medical Center's net position increased approximately \$7,217,000 or 2.2% in 2016 compared to 2015
- The Medical Center reported operating income in 2016 of approximately \$6,050,000 and in 2015 of approximately \$9,336,000 a decrease of \$3,286,000 or 35.2%
- Net nonoperating revenues decreased by approximately \$85,000 or 6.8% in 2016 compared to 2015

The Medical Center's Net Position

The Medical Center's net position is the difference between its assets and liabilities reported in the balance sheet. The Medical Center's net position increased by approximately \$7,217,000 or 2.2% in 2016 over 2015, as shown in Table 3.

Table 3: Assets, Liabilities and Net Position

	<u>2016</u>	<u>2015</u>
	<i>(In Thousands)</i>	
Assets		
Patient accounts receivable, net	\$ 18,950	\$ 17,730
Other current assets	15,561	15,399
Capital assets, net	185,363	162,834
Cash and investments, noncurrent	138,767	153,458
Other noncurrent assets	<u>1,525</u>	<u>1,485</u>
Total assets	<u>\$ 360,166</u>	<u>\$ 350,906</u>
Liabilities		
Total current liabilities	<u>\$ 20,524</u>	<u>\$ 18,481</u>
Net Position		
Net investment in capital assets	181,816	162,834
Unrestricted	<u>157,826</u>	<u>169,591</u>
Total net position	<u>339,642</u>	<u>332,425</u>
Total liabilities and net position	<u>\$ 360,166</u>	<u>\$ 350,906</u>

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Management's Discussion and Analysis (Continued)
Years Ended September 30, 2017 and 2016

A significant change in the Medical Center's assets in 2016 is the increase in capital assets and decrease in cash and investments. Net capital assets increased by approximately \$22,529,000 or 13.8% in 2016 over 2015. Cash and investments decreased approximately \$14,617,000 or 8.9% in 2016 over 2015. The increase in capital assets and decrease in cash and investments results primarily from the Medical Center investing cash and investments into capital assets related to the Wellness Facility, a free standing facility under construction funded by the Medical Center's cash on hand.

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

In 2016, the Medical Center's net position increased by \$7,217,000 or 2.2% as shown in Table 4. This increase is made up of several different components and represents a decline of 31.8% compared with the increase in net position for 2015 of approximately \$10,588,000.

Table 4: Operating Results and Changes in Net Position

	2016	2015
	<i>(In Thousands)</i>	
Operating Revenues		
Net patient service revenue	\$ 162,197	\$ 163,356
Other	3,808	4,205
	<u>166,005</u>	<u>167,561</u>
Operating Expenses		
Salaries, wages and employee benefits	80,757	79,739
Supplies, professional fees and purchased services	69,086	67,727
Depreciation and amortization	10,112	10,759
	<u>159,955</u>	<u>158,225</u>
Operating Income	<u>6,050</u>	<u>9,336</u>
Nonoperating Revenues	<u>1,167</u>	<u>1,252</u>
Increase in Net Position	<u>\$ 7,217</u>	<u>\$ 10,588</u>

Hospital Service District No. 3
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Management's Discussion and Analysis (Continued)
Years Ended September 30, 2017 and 2016

Operating Income

The operating income decreased in 2016 by approximately \$3,286,000 or 35.2% as compared to 2015. The primary components of the decreased operating income are shown below:

- A decrease in net patient service revenue of approximately \$1,159,000 or 0.7%
- A decrease in other operating revenues of approximately \$397,000 or 9.4%
- An increase in salaries, wages and employee benefits of approximately \$1,018,000 or 1.3%
- An increase in supplies and other costs of \$1,359,000 or 2.0%

During fiscal year 2016, the Medical Center derived 97.7% 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, 2016 and 2015:

	2016	2015	Dollar Change	Percent
	<i>(In Thousands)</i>			
Gross patient service revenue	\$ 647,258	\$ 614,444	\$ 32,814	5.3%
Contractual and other adjustments				
Medicare	260,581	234,645	25,936	11.1%
Managed Care	113,985	117,486	(3,501)	(3.0%)
Medicaid	62,737	54,488	8,249	15.1%
Other	27,492	24,150	3,342	13.8%
Total contractual adjustments	464,795	430,769	34,026	7.9%
Provision for uncollectible accounts	182,463	183,675	(1,212)	(0.7%)
	20,266	20,319	(53)	(0.3%)
Net patient service revenue	<u>\$ 162,197</u>	<u>\$ 163,356</u>	<u>\$ (1,159)</u>	<u>(0.7%)</u>

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
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Years Ended September 30, 2017 and 2016

Gross patient service charges increased \$32,814,000 or 5.3% from the prior year primarily due to the rate increase applied on May 1, 2016. Net patient service revenue, before provision for uncollectible accounts, decreased \$1,212,000 or 0.7%. Total provision for contractual adjustments as a percent of gross patient service revenues were 71.8% for 2016 and 70.1% in the prior year. The increase in contractual adjustments as a percent of gross patient service revenues is driven primarily by effects of the expansion of the Medicaid program in the state of Louisiana effective July 1, 2016.

Excluded from gross patient service revenue are amounts forgone for patient services falling under the Medical Center's charity care policy. These amounts were based on established rates for the services provided. Gross charges of approximately \$2,449,000 were forgone during 2016 compared to \$3,244,000 during 2015. The provision for uncollectible accounts decreased to approximately \$20,266,000 from the prior year amount of \$20,319,000. The decrease in bad debts and forgone charges for the Medical Center's charity care policy while gross charges are increasing is driven primarily by effects of the expansion of the Medicaid program in the state of Louisiana effective July 1, 2016 as more patients are qualifying for insurance coverage in 2016.

The other operating revenue decrease consists primarily of electronic health record (EHR) funding awarded from Medicare and Medicaid. EHR funds awarded from Medicare and Medicaid during 2016 totaled approximately \$578,000 and \$47,000, respectively, compared to funds awarded in 2015 of \$960,000 and \$55,000, respectively.

The increase in salaries, wages and employee benefits expense in 2016 was due to increases in employees including additional employed physicians.

Earnings before Interest, Depreciation and Amortization

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

	2016	2015
	<i>(In Thousands)</i>	
Operating Income	\$ 6,050	\$ 9,336
Plus depreciation and amortization	10,112	10,759
EBIDA	\$ 16,162	\$ 20,095

The Medical Center did not incur any interest expense as they did not have any outstanding debt as of September 30, 2016 and 2015. EBIDA for the year ended September 30, 2016 decreased \$3,933,000 or 19.6% for the reasons noted above in changes in operating income.

Hospital Service District No. 3
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Management's Discussion and Analysis (Continued)
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Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income 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 slightly from the prior year largely due a reduction in income from joint venture. The Medical Center has no interest expense as they had no outstanding debt in 2016 and 2015.

The Medical Center's Cash Flows

Changes in the Medical Center's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2016 and 2015, discussed earlier.

Capital Assets

At September 30, 2016 and 2015, the Medical Center had approximately \$185,363,000 and \$162,834,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2016 and 2015, the Medical Center purchased new property and equipment costing approximately \$32,670,000 and \$43,941,000, 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 2018 budget. Although the financial outlook of the Medical Center is excellent, of primary importance in setting the 2018 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

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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
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Balance Sheets
September 30, 2017 and 2016

Assets

	2017	2016
Current Assets		
Cash	\$ 17,501,300	\$ 10,908,281
Short-term investments	125,000	125,000
Patient accounts receivable, net of allowance; 2017 – \$11,122,000; 2016 – \$15,212,000	19,091,905	18,949,733
Estimated amounts due from third-party payers	-	377,507
Other receivables	892,667	107,511
Supplies	2,691,762	2,578,526
Prepaid expenses and other	1,722,374	1,465,343
Total current assets	42,025,008	34,511,901
 Noncurrent Cash and Investments		
Board designated for capital expenditures	141,774,038	138,766,509
 Capital Assets, Net	180,986,346	185,362,616
Other Assets	1,832,943	1,524,662
 Total assets	\$ 366,618,335	\$ 360,165,688

Liabilities and Net Position

	<u>2017</u>	<u>2016</u>
Current Liabilities		
Accounts payable and accrued expenses	\$ 17,652,312	\$ 20,071,221
Estimated amounts due to third-party payers	<u>679,314</u>	<u>452,669</u>
Total current liabilities	<u>18,331,626</u>	<u>20,523,890</u>
Net Position		
Net investment in capital assets	180,182,537	181,815,557
Unrestricted	<u>168,104,172</u>	<u>157,826,241</u>
Total net position	<u>348,286,709</u>	<u>339,641,798</u>
Total liabilities and net position	<u><u>\$ 366,618,335</u></u>	<u><u>\$ 360,165,688</u></u>

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, 2017 and 2016

	2017	2016
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2017 – \$9,529,000; 2016 – \$20,266,000	\$ 173,517,187	\$ 162,197,016
Other	6,094,949	3,808,637
Total operating revenues	179,612,136	166,005,653
Operating Expenses		
Salaries and wages	67,683,958	66,422,747
Employee benefits	13,988,069	14,334,494
Professional fees and services	8,313,814	8,544,530
Supplies and other	42,661,055	37,537,637
Purchased services	14,342,292	13,920,673
Other	10,704,254	9,083,034
Depreciation and amortization	14,712,152	10,112,347
Total operating expenses	172,405,594	159,955,462
Operating Income	7,206,542	6,050,191
Nonoperating Revenues (Expenses)		
Investment income	551,902	374,656
Contributions	600,000	-
TIC JV Distributions	(25,841)	-
Noncapital grants and contributions received	60,751	64,507
Noncapital grants and contributions expensed	(3,872)	(37,724)
Loss from disposal of capital assets	(25,516)	(6,044)
Income from joint venture	280,945	771,069
Total nonoperating revenues	1,438,369	1,166,464
Increase in Net Position	8,644,911	7,216,655
Net Position, Beginning of Year	339,641,798	332,425,143
Net Position, End of Year	\$ 348,286,709	\$ 339,641,798

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, 2017 and 2016

	2017	2016
Operating Activities		
Receipts from and on behalf of patients and third-party payors	\$ 174,445,246	\$ 160,952,066
Payments to suppliers and contractors	(76,703,175)	(67,784,471)
Payments to employees	(82,080,921)	(81,323,877)
Other receipts, net	5,309,793	3,761,747
	20,970,943	15,605,465
Net cash provided by operating activities	20,970,943	15,605,465
Noncapital and Financing Activities		
Grants and contributions received	660,751	64,507
Grants and contributions expended	(3,872)	(37,724)
	656,879	26,783
Net cash provided by noncapital and financing activities	656,879	26,783
Capital and Related Financing Activities		
Proceeds from the sale of capital assets	-	23,122
Purchase of capital assets	(13,130,164)	(31,326,035)
	(13,130,164)	(31,302,913)
Net cash used in capital and related financing activities	(13,130,164)	(31,302,913)
Investing Activities		
Interest income	551,902	374,656
Distributions received from joint venture	550,988	678,735
Purchase of investments	(160,365,536)	(55,437,950)
Proceeds from disposition of investments	157,358,007	70,129,210
	(1,904,639)	15,744,651
Net cash provided by (used in) investing activities	(1,904,639)	15,744,651
Increase in Cash	6,593,019	73,986
Cash, Beginning of Year	10,908,281	10,834,295
Cash, End of Year	\$ 17,501,300	\$ 10,908,281

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, 2017 and 2016

	2017	2016
Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities		
Operating income	\$ 7,206,542	\$ 6,050,191
Depreciation and amortization	14,712,152	10,112,347
Loss on disposal of capital assets	25,516	6,044
Provision for uncollectible accounts	9,529,001	20,266,499
Changes in operating assets and liabilities		
Patient accounts receivable, net	(9,671,173)	(21,416,523)
Estimated amounts due from and to third-party payers	604,152	(306,533)
Accounts payable and accrued expenses	298,500	828,638
Other assets and liabilities	(1,733,747)	64,802
	\$ 20,970,943	\$ 15,605,465
 Supplemental Cash Flows Information		
Capital asset additions in accounts payable	\$ 803,809	\$ 3,547,059

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

Notes to Financial Statements
September 30, 2017 and 2016

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 is a joint venture formed by the Medical Center and physician owners that leases and subleases the imaging center to the Medical Center. TIC 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 and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and parish appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific such as investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Medical Center first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Use of Estimates

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

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

Notes to Financial Statements
September 30, 2017 and 2016

Cash

The Medical Center excludes amounts restricted as to use by board designation from cash. Noncurrent cash includes cash balances at September 30, 2017 and 2016 that were restricted by board designation.

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 account is also reduced for any dividends received. The investment in the joint venture is included in other assets on the balance sheets.

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A Component Unit of Lafourche Parish, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)

Notes to Financial Statements
September 30, 2017 and 2016

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.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
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Notes to Financial Statements
September 30, 2017 and 2016

Net Position

Net position of the Medical Center is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and amortization and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. As of September 30, 2017 and 2016 the Medical Center had no outstanding borrowings. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Medical Center, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. There was no restricted expendable net position at September 30, 2017 and 2016. 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.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
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Notes to Financial Statements
September 30, 2017 and 2016

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation. The reclassifications had no effect on the changes in financial position.

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, 2013.
- **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 53% and 49% respectively, of net patient service revenue is from participation in the Medicare and state sponsored Medicaid programs for the years ended September 30, 2017 and 2016. 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.

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Notes to Financial Statements
September 30, 2017 and 2016

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, 2017 and 2016, total revenues, net of expenses, recognized by the Medical Center related to this agreement was approximately \$1,572,000 and \$517,000, 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, 2017 and 2016, total revenues, net of expenses, recognized by the Medical Center related to this agreement was approximately \$3,815,000 and \$2,159,000, 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, 2017 and 2016, the Medical Center's deposits were either insured or collateralized in accordance with state law.

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.

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Notes to Financial Statements
September 30, 2017 and 2016

At September 30, 2017, the Medical Center had the following investments at maturities:

Type	Fair Value	September 30, 2017			
		Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
U.S. Treasury obligations	\$ 36,970,640	\$ 1,259,888	\$ 26,485,450	\$ 9,225,302	\$ -
U.S. agencies obligations	47,143,442	3,497,265	26,984,552	3,873,826	12,787,799
Corporate bonds	5,487,073	3,602,335	1,884,738	-	-
Money market mutual funds	395,959	395,959	-	-	-
	<u>\$ 89,997,114</u>	<u>\$ 8,755,447</u>	<u>\$ 55,354,740</u>	<u>\$ 13,099,128</u>	<u>\$ 12,787,799</u>

At September 30, 2016, the Medical Center had investments in money market mutual funds of \$48,000,000 which are included in noncurrent cash and investments as their use is restricted by board designation for the purchase of capital assets.

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 AA- to 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.

Hospital Service District No. 3
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Notes to Financial Statements
September 30, 2017 and 2016

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, 2017 and 2016, 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:

	<u>2017</u>	<u>2016</u>
Federal Home Loan Bank	16.1%	N/A
Federal Farm Credit Bank	5.5%	N/A
Federal National Mortgage Association	10.1%	N/A
Federal Home Loan Mortgage Corporation	12.7%	N/A

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.

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Notes to Financial Statements
September 30, 2017 and 2016

Summary of Carrying Values

The Medical Center holds the following deposits and investments:

	<u>2017</u>	<u>2016</u>
Cash deposits, operating funds	\$ 17,501,300	\$ 10,908,281
Cash deposits, board designated funds	46,129,157	83,127,496
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	3,647,767	5,639,013
Money market mutual funds, board designated funds	395,959	48,000,000
Investments, board designated funds	<u>89,601,155</u>	<u>-</u>
	<u>\$ 159,400,338</u>	<u>\$ 149,799,790</u>

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

	<u>2017</u>	<u>2016</u>
Cash	\$ 17,501,300	\$ 10,908,281
Short-term investments	125,000	125,000
Board designated for capital expenditures	<u>141,774,038</u>	<u>138,766,509</u>
	<u>\$ 159,400,338</u>	<u>\$ 149,799,790</u>

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:

	<u>2017</u>	<u>2016</u>
Medicare	\$ 8,436,627	\$ 7,315,614
Medicaid	1,511,964	1,496,782
Other third-party payers	9,525,139	10,333,607
Patients	<u>10,739,841</u>	<u>15,015,763</u>
	30,213,571	34,161,766
Less allowance for uncollectible accounts	<u>11,121,666</u>	<u>15,212,033</u>
	<u>\$ 19,091,905</u>	<u>\$ 18,949,733</u>

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Notes to Financial Statements
September 30, 2017 and 2016

Note 6: Capital Assets

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

	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 7,736,002	\$ -	\$ -	\$ -	\$ 7,736,002
Land improvements	5,793,168	22,462	-	-	5,815,630
Buildings and improvements	146,535,059	371,104	-	71,643,435	218,549,598
Equipment	83,916,491	7,257,794	(170,204)	4,775,609	95,779,690
Construction in progress	75,445,493	2,710,038	-	(76,419,044)	1,736,487
	319,426,213	10,361,398	(170,204)	-	329,617,407
Less accumulated depreciation	(134,063,597)	(14,712,152)	144,688	-	(148,631,061)
Capital assets, net	<u>\$ 185,362,616</u>	<u>\$ (4,350,754)</u>	<u>\$ (25,516)</u>	<u>\$ -</u>	<u>\$ 180,986,346</u>

	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 7,736,002	\$ -	\$ -	\$ -	\$ 7,736,002
Land improvements	5,793,168	-	-	-	5,793,168
Buildings and improvements	144,794,813	359,057	-	1,381,189	146,535,059
Equipment	73,292,456	10,351,361	(83,394)	356,068	83,916,491
Construction in progress	55,222,775	21,959,975	-	(1,737,257)	75,445,493
	286,839,214	32,670,393	(83,394)	-	319,426,213
Less accumulated depreciation	(124,005,478)	(10,112,347)	54,228	-	(134,063,597)
Capital assets, net	<u>\$ 162,833,736</u>	<u>\$ 22,558,046</u>	<u>\$ (29,166)</u>	<u>\$ -</u>	<u>\$ 185,362,616</u>

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Notes to Financial Statements
September 30, 2017 and 2016

Note 7: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at September 30, 2017 and 2016, consisted of:

	2017	2016
Payable to suppliers and contractors	\$ 6,429,292	\$ 8,905,386
Payable to employees (including payroll taxes and benefits)	5,905,768	6,266,044
Estimated self insurance costs (<i>Note 8</i>)	2,526,390	2,815,008
Net post-employment benefit obligation (<i>Note 10</i>)	1,437,750	1,197,750
Patient credit balances	1,353,112	887,033
	\$ 17,652,312	\$ 20,071,221

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 2017 and 2016 is summarized as follows:

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	2017	2016
Balance, beginning of year	\$ 772,632	\$ 682,632
Current year claims incurred and changes in estimates for claims incurred in prior years	707,075	408,894
Claims and expenses paid	(577,075)	(318,894)
Balance, end of year	\$ 902,632	\$ 772,632

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, 2017 and 2016, the Medical Center accrued \$150,866 and \$180,866, 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.

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A Component Unit of Lafourche Parish, State of Louisiana
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Notes to Financial Statements
September 30, 2017 and 2016

Activity in the Medical Center's accrued employee health and workers' compensation claims liability during 2017 and 2016, is summarized as follows:

	2017	2016
Balance, beginning of year	\$ 1,861,510	\$ 1,981,494
Current year claims incurred and changes in estimates for claims incurred in prior years	6,837,865	6,793,214
Claims and expenses paid	(7,226,483)	(6,913,198)
Balance, end of year	\$ 1,472,892	\$ 1,861,510

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, 2017 and 2016 totaled approximately \$1,092,000 and \$1,189,000, respectively.

Future minimum lease payments at September 30, 2017, were:

2018	\$ 482,753
2019	472,049
2020	429,033
2021	216,844
2022	131,352
2023	7,517
	\$ 1,739,548

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 \$1,416,000 and \$1,335,000, respectively, for the years ended September 30, 2017 and 2016.

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Notes to Financial Statements
September 30, 2017 and 2016

Minimum future rentals receivable under noncancellable operating leases at September 30, 2017, were:

2018	\$ 975,980
2019	541,077
2020	425,399
2021	425,399
2022	378,448
2023	<u>66,125</u>
	<u>\$ 2,812,428</u>

Note 10: Postemployment Health Care Plan

Plan Description

The Medical Center sponsors a postemployment benefit for retirees meeting certain criteria (OPEB Plan). The OPEB Plan allows retirees to receive health insurance at a nominally discounted rate until Medicare eligible age. Benefits under the OPEB Plan as well as the OPEB Plan's funding policy are determined by the Medical Center's board of commissioners and can be revised or amended at any time. The OPEB Plan does not issue stand-alone financial statements.

Funding Policy

The contribution requirements of plan members and the Medical Center are established and may be amended by the board of commissioners of the Medical Center. The Medical Center is not required to make contributions to the plan on behalf of the retirees and funds the plan on a projected pay-as-you-go basis. For the years ended September 30, 2017 and 2016, retirees in the OPEB Plan were required to make monthly contributions ranging from \$571 to \$1,856.

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Annual OPEB Cost and Net OPEB Obligation

The Medical Center's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Medical Center's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Medical Center's net OPEB obligation to the plan:

	<u>2017</u>	<u>2016</u>
Annual required contribution	\$ 245,000	\$ 245,000
Interest on net OPEB obligation	38,000	38,000
Adjustment to annual required contribution	<u>(34,000)</u>	<u>(34,000)</u>
Annual OPEB cost	<u>249,000</u>	<u>249,000</u>
Contributions made	(9,000)	(9,000)
Increase in net OPEB obligation	<u>240,000</u>	<u>240,000</u>
Net OPEB obligation - beginning of year	<u>1,197,750</u>	<u>957,750</u>
Net OPEB obligation - end of year	<u>\$ 1,437,750</u>	<u>\$ 1,197,750</u>

The Medical Center's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2017 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
September 30, 2017	\$ 249,000	4%	\$ 1,437,750
September 30, 2016	\$ 249,000	4%	\$ 1,197,750
September 30, 2015	\$ 267,000	10%	\$ 957,750

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Funded Status and Funding Progress

As of October 1, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$2,028,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,028,000.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive OPEB plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and OPEB plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2015, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual health care cost trend rate of 8.0% initially, reduced by decrements of 0.5% each year until an ultimate rate of 4.5% is reached. Both rates included a 3.0% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis.

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 IRC Section 457(b), which receives employee pre-tax contributions for Medical Center employees.

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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, 2017 and 2016, 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, 2017 and 2016 totaled approximately \$2,300,000 and \$2,345,000, 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. Financial position and results of operations of the joint venture are summarized below:

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September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Current assets	\$ 1,707,685	\$ 1,671,561
Property and equipment, net	279,121	408,902
	<u>\$ 1,986,806</u>	<u>\$ 2,080,463</u>
Current liabilities	\$ 412,633	\$ 198,386
Long-term liabilities	212,123	297,530
	<u>624,756</u>	<u>495,916</u>
Members' capital	<u>1,362,050</u>	<u>1,584,547</u>
	<u>\$ 1,986,806</u>	<u>\$ 2,080,463</u>
Net patient service revenue	\$ 7,305,586	\$ 7,551,994
Operating expenses	(5,749,266)	(5,686,829)
Non-operating income	57,810	18,602
	<u>\$ 1,614,130</u>	<u>\$ 1,883,767</u>

The carrying amount of the Medical Center's investment in the joint venture was \$537,798 and \$807,841 at September 30, 2017 and 2016, respectively.

Income from the Medical Center's investment in the joint venture was \$280,945 and \$771,069 for the years ended September 30, 2017 and 2016, respectively.

Additionally, the Medical Center leases office space to Thibodaux Surgery Center, LLC under an operating lease with an expiration date of December 31, 2018. The lease has renewal options upon expiration. Amounts received under the lease agreements for the years ended September 30, 2017 and 2016, totaled approximately \$459,000 and \$452,000, respectively.

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Notes to Financial Statements
September 30, 2017 and 2016

Note 13: Significant Estimates and Contingencies

Litigation

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

Self-insured Employee Health Care

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

Note 14: 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

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Notes to Financial Statements
September 30, 2017 and 2016

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:

	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2017				
Investments by fair value level				
U.S. Treasury obligations	\$ 36,970,640	\$ 36,970,640	\$ -	\$ -
U.S. agency obligations	47,143,442	2,626,496	44,516,946	-
Corporate bonds	5,487,073	1,884,738	3,602,335	-
Money market mutual funds	395,959	395,959	-	-
Total investments by fair value level	<u>\$ 89,997,114</u>	<u>\$ 41,877,833</u>	<u>\$ 48,119,281</u>	<u>\$ -</u>
Other assets by fair value level				
U.S. agency obligations	<u>\$ 665,193</u>	<u>\$ -</u>	<u>\$ 665,193</u>	<u>\$ -</u>
September 30, 2016				
Investments by fair value level				
Money market mutual funds	<u>\$ 48,000,000</u>	<u>\$ 48,000,000</u>	<u>\$ -</u>	<u>\$ -</u>
Other assets by fair value level				
U.S. agency obligations	<u>\$ 648,429</u>	<u>\$ -</u>	<u>\$ 648,429</u>	<u>\$ -</u>

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
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Notes to Financial Statements
September 30, 2017 and 2016

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, 2017 and 2016.

Note 15: Future Change in Accounting Principle

In June 2015, the Governmental Accounting Standards Board issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). Principal objectives of GASB 75 are to improve accounting and financial reporting by state and local governments for OPEB and to improve information provided by state and local employers about financial support for OPEB that is provided by other entities. OPEB includes, among other things, postemployment healthcare benefits (medical, dental, vision, hearing and other health-related benefits), death benefits, life insurance, disability and long-term care. GASB 75 supersedes GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and is applicable to employers providing defined benefit OPEB to their employees through OPEB plans that are administered through trusts that meet certain specified criteria, to employers providing defined contribution OPEB to their employees, and to employers providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria of GASB 75. It also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. GASB 75 requires employers providing defined benefit OPEB to their employees to recognize a net OPEB liability, or its proportionate share of such liability for cost-sharing multiple-employer plans, for the portion of the actuarial present value of projected benefit payments to be provided to current active and inactive employees that is attributed to past periods of employee service, less any OPEB plan fiduciary net position. It also provides guidance on determining OPEB expense, deferred outflows and inflows of resources, note disclosures and required supplementary information. The requirements of GASB 75 are applicable for fiscal years beginning after June 15, 2017, thus, it will be applicable to the Medical Center for the year ending September 30, 2018. The impact of adopting GASB 75 on the Medical Center's financial statements is not currently determinable, but may be material and will require restating the 2017 financial statements upon adoption.

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 Chief Executive Officer
Year Ended September 30, 2017

Chief Executive Officer - Greg Stock	Amount
Purpose	Amount
Salary	\$ 520,000
Benefits-insurance	11,396
Benefits-retirement	10,538
Benefits-Other	-
Car allowance	-
Vehicle provided by government	13,750
Per diem	-
Reimbursements	-
Travel	-
Registration fees	470
Conference travel	23,815
Continuing professional education fees	-
Housing	-
Unvouchered expenses	-
Special meals	1,482
	1,482
	\$ 581,451

**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, 2017 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated March 29, 2018.

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 29, 2018

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, 2017



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, 2017. 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 or for any other purpose.

The 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 20, 2018

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)
Applying Agreed-Upon Procedures
Year Ended September 30, 2017

Policies and Procedures

1. Obtain the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:
 - a) **Budgeting**, including preparing, adopting, monitoring, and amending the budget.
 - b) **Purchasing**, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.
 - c) **Disbursements**, including processing, reviewing, and approving.
 - d) **Receipts**, including receiving, recording, and preparing deposits.
 - 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, and (5) monitoring card usage.
 - 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. *Note: Ethics requirements are not applicable to nonprofits.*
 - j) **Debt Service**, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
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Applying Agreed-Upon Procedures
Year Ended September 30, 2017

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

Management’s Response: Management will consider amending internal policies.

Board Minutes

2. Obtain and review the board/committee minutes for the fiscal period, and:

- a) Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board’s enabling legislation, charter, or other equivalent document.
- b) Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the entity’s prior audit (GAAP-basis).
 - If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, report whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, report whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.
- c) Report whether the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period.

Results: We reviewed the Medical Center’s Board of Commissioners minutes noting meetings were held monthly, budget-to-actual comparisons were presented and discussed as well as non-budgetary financial information.

Bank Reconciliations

3. Obtain a listing of client bank accounts from management and management’s representation that the listing is complete.

Results: Obtained a listing of bank accounts from management and management’s representation that the listing was complete.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)
Applying Agreed-Upon Procedures
Year Ended September 30, 2017

4. Using the listing provided by management, select all of the entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three year rotating basis (if more than 5 accounts). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity fund accounts may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement.* For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:
- a) Bank reconciliations have been prepared;
 - b) Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and
 - c) If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

Results: The Medical Center has 15 bank accounts, five accounts were selected for testing. Of the five bank balances selected for testing, three accounts were checking accounts in which checks can be written and funds can be deposited. Two of the accounts selected were savings and CD accounts in which minimal activity occurs. The Medical Center maintained monthly reconciliations for two of the three checking accounts for all twelve months, documented management review and documentation reflected items outstanding have been researched.

For one checking account, one savings and one CD account, formal monthly reconciliations are not performed as there is limited activity for these balances. Bank statements are obtained, interest income and adjustments to balances are recorded and presented to the Chief Financial Officer for final monthly review.

Management's Response: Management will maintain formal documentation of monthly review for all bank accounts where a formal bank reconciliation is not performed due to limited activity.

Collections

5. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.

Results: Obtained a listing of cash collection locations from management and management's representation that the listing was complete.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)
Applying Agreed-Upon Procedures
Year Ended September 30, 2017

6. Using the listing provided by management, select all of the entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than 5 locations). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity funds may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement.*

For each cash collection location selected:

- a) Obtain existing written documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.
- b) Obtain existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.
- c) Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:
 - Using entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.
 - Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.

Results: The Medical Center has 35 collection locations, 12 locations were selected for testing. For the twelve locations selected, each person responsible for collecting cash is covered under an insurance policy covering employee theft and employee dishonesty and not responsible for depositing cash in the bank. Eight of the twelve locations selected for testing requires employees to share cash drawers.

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The Medical Center provided daily cash reconciliation spreadsheets and has a formal process to reconcile daily cash collections to the general ledger and reconciliation is performed by a person who is not responsible for cash collections in the collection locations selected.

Selected the highest dollar week of cash collections from the accounting records. Eight of the twelve locations selected for testing deposited cash within one day of receiving the cash with the exception of cash received on Fridays as they are deposited on the following Monday. The remaining four locations experienced delays in cash deposits of up to 15 days from receipt date. Daily cash collections were supported by documentation.

Management's Response: Management requests chart completion for each item in a daily batch to coincide with the deposit of funds for reconciliation purposes due to the large number of deposits that are posted to the operating checking account on a daily basis. There are various reasons batches are kept open. Examples include coding accuracy, documentation review, quality indicators reviewed. Cash at each location is kept in a locked environment.

7. Obtain existing written documentation (e.g. policy manual, written procedure) and report whether the entity has a process specifically defined (identified as such by the entity) to determine completeness of all collections, including electronic transfers, for each revenue source and 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) by a person who is not responsible for collections.

Results: The entity maintains formal policies and documentation surrounding the reconciliation of cash collections to the general ledger by a person who is not responsible for cash collections as well as policies to determine the completeness of all collections inclusive of electronic transfers.

Disbursements – General (excluding credit card/fuel card payments)

8. Obtain a listing of entity disbursements from management or, alternately, obtain the general ledger and sort/filter for entity disbursements. Obtain management's representation that the listing or general ledger population is complete.

Results: Obtained a listing of disbursements from management and management's representation that the listing was complete.

9. Using the disbursement population from #8 above, randomly select 25 disbursements (or randomly select disbursements constituting at least one-third of the dollar disbursement population if the entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting

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documentation (e.g. purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:

- a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.
- b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.
- c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.

Results: Twelve of 25 randomly selected disbursements were initiated using a requisition/purchase order system and met each of the required elements above for initiation, approval and payment. The remaining 13 disbursements selected did not require initiation through a requisition/purchase order system but were all approved by a person who did not initiate the purchase and payment met the requirements above.

10. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system.

Results: Accounts payable clerks are authorized to add vendors and process payments. Separate personnel submit an electronic file to the bank that restricts the cashing of checks not included in the file.

11. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.

Results: Signatory authorities do not have responsibility for initiating or recording purchases.

12. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and report any exceptions. Alternately, if the checks are electronically printed on blank check stock, review entity documentation (electronic system control documentation) and report whether the persons with signatory authority have system access to print checks.

Results: Checks are electronically printed on blank checks. Individuals who have signatory authority do not have system access to print checks.

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13. If a signature stamp or signature machine is used, inquire of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Report any exceptions.

Results: No exceptions noted as a result of the procedures performed.

Credit Cards/Fuel Cards

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

Results: Obtained a listing of cards from management and management's representation that the listing was complete.

15. Using the listing prepared by management, randomly select 10 cards (or at least one-third of the cards if the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year. If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner.

Obtain the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. Select the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:

- a) Report whether there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder. *[Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]*
- b) Report whether finance charges and/or late fees were assessed on the selected statements.

Results: One credit card of the ten selected for testing had formal review and approval of the entire statement. The remaining nine cards selected for testing were fuel cards and store cards where transactions are individually reviewed and approved for each purchase. The Medical Center does not further review the monthly statements for fuel or store cards.

Finance charges were applied to two of the ten cards selected for testing.

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Management's Response: Finance charges applied do occur occasionally because the credit card has a short payment window and also due to the review and approval process to which these purchases are subjected. Management is aware of these fees and discusses with the Credit Card Company. The purchases are paid by individual receipts rather than by a statement to avoid finance and late charges. Management believes this practice has reduced late and finance charges. Management will add to the current process the formal review of the card statements.

16. Using the monthly statements or combined statements selected under #15 above, obtain supporting documentation for all transactions for each of the 10 cards selected (i.e. each of the 10 cards should have one month of transactions subject to testing).

- a) For each transaction, report whether the transaction is supported by:
 - An original itemized receipt (i.e., identifies precisely what was purchased).
 - Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.
 - Other documentation that may be required by written policy (e.g., purchase order, written authorization).
- b) For each transaction, compare the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and report any exceptions.
- c) For each transaction, compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. cash advances or non-business purchases, regardless whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

Results: Supporting documentation consistent with the Medical Center's policies were maintained for all transactions on the 10 credit cards selected for testing with the exception of two receipts. Additionally, business purpose was documented for each purchase consistent with the Medical Center's policy. Per review of the statements no purchases were subject to Louisiana Public Bid Law nor were any purchases prohibited by Article 7, Section 14.

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Travel and Expense Reimbursement

17. Obtain from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtain the general ledger and sort/filter for travel reimbursements. Obtain management's representation that the listing or general ledger is complete.

Results: Obtained a listing of all travel and related expense reimbursements, by person, and general ledger detail of travel reimbursements from management and management's representation that the listing was complete.

18. Obtain the entity's written policies related to travel and expense reimbursements. Compare the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration (www.gsa.gov) and report any amounts that exceed GSA rates.

Results: Management provided a written policy for travel and expense reimbursements. The Medical Center's policy includes meal reimbursement allowances in excess of the U.S. GSA rates and mileage rates consistent with rates established by the U.S. GSA.

Management's Response: Hospital Management believes the amounts allowed in the travel policy for meal reimbursement are reasonable.

19. Using the listing or general ledger from #17 above, select the three persons who incurred the most travel costs during the fiscal period. Obtain the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:

a) Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, compare to the GSA rates (#18 above) and report each reimbursement that exceeded those rates.

b) Report whether each expense is supported by:

➤ An original itemized receipt that identifies precisely what was purchased. *[Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.]*

➤ Documentation of the business/public purpose *(Note: For meal charges, there should also be documentation of the individuals participating).*

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- Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance)
- c) Compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.
- d) Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Results: The largest travel expense reimbursement for each of the three employees selected was supported by the documentation listed in criteria a) through d) with no exceptions noted.

Contracts

20. Obtain a listing of all contracts in effect during the fiscal period or, alternately, obtain the general ledger and sort/filter for contract payments. Obtain management's representation that the listing or general ledger is complete.

Results: Obtained a detail of all disbursements inclusive of payments for contracts from management and management's representation that the listing was complete.

21. Using the listing above, select the five contract "vendors" that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). Obtain the related contracts and paid invoices and:

- a) Report whether there is a formal/written contract that supports the services arrangement and the amount paid.
- b) Compare each contract's detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:
 - If yes, obtain/compare supporting contract documentation to legal requirements and report whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder).
 - If no, obtain supporting contract documentation and report whether the entity solicited quotes as a best practice.

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- c) Report whether the contract was amended. If so, report the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.
- d) Select the largest payment from each of the five contracts, obtain the supporting invoice, compare the invoice to the contract terms, and report whether the invoice and related payment complied with the terms and conditions of the contract.
- e) Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law (e.g. Lawrason Act or Home Rule Charter).

Results: All five contracts selected for testing were supported by a formal agreement. No contracts selected were subject to public bid law. The Medical Center obtained competing quotes prior to approval for one of the five contracts. One contract selected was amended in the year ended September 30, 2017 and was approved in a manner consistent with the Medical Center's policies. Obtained the largest payment from each contract selected for testing for the year ended September 30, 2017 and payments complied with the terms and conditions of the contract. Three of the five contracts required board approval and were supported by documentation.

Payroll and Personnel

- 22. Obtain a listing of employees (and elected officials, if applicable) with their related salaries, and obtain management's representation that the listing is complete. Randomly select five employees/officials, obtain their personnel files, and:
 - a) Review compensation paid to each employee during the fiscal period and report whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.
 - b) Review changes made to hourly pay rates/salaries during the fiscal period and report whether those changes were approved in writing and in accordance with written policy.

Results: Obtained a listing of employees with their related salaries and management's representation that the listing was complete. Compensation paid for the five employees randomly selected for testing were in accordance with the terms and conditions of the employment contract or pay rate structure and changes made to pay rate during the fiscal year was approved in writing and in accordance with policy.

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23. Obtain attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, randomly select 25 employees/officials (or randomly select one-third of employees/officials if the entity had less than 25 employees during the fiscal period), and:
- a) Report whether all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). *(Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)*
 - b) Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.
 - c) Report whether there is written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.

Results: All of the documentation listed in items a) and c) above were maintained for the 25 employees randomly selected for testing. Written documentation and approval for leave for three of the employees selected for testing was not maintained.

Management's Response: Management's practice included forwarding the approval to an assigned designee for processing; however the emails are automatically deleted after 90 days. Management will save the documentation on the hard drive for future reference.

24. Obtain from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, select the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtain the personnel files for the two employees/officials. Report whether the termination payments were made in strict accordance with policy and/or contract and approved by management.

Results: Obtained a listing of terminated employees during the fiscal period and management's representation that the listing was complete. The two largest termination payments selected for testing were made in accordance with policy and approved by a level of management.

25. Obtain supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. Report whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

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Results: All employee and employer portions of payroll taxes and retirement contributions were submitted to the appropriate agencies by the required deadlines.

Ethics (excluding nonprofits)

26. Using the five randomly selected employees/officials from procedure #22 under “Payroll and Personnel” above, obtain ethics compliance documentation from management and report whether the entity maintained documentation to demonstrate that required ethics training was completed.

Results: The Medical Center maintained documentation to demonstrate that required ethics training was completed.

27. Inquire of management whether any alleged ethics violations were reported to the entity during the fiscal period. If applicable, review documentation that demonstrates whether management investigated alleged ethics violations, the corrective actions taken, and whether management’s actions complied with the entity’s ethics policy. Report whether management received allegations, whether management investigated allegations received, and whether the allegations were addressed in accordance with policy.

Results: Per inquiry of management, no ethics violations were reported to the Medical Center during the year ended September 30, 2017.

Debt Service (excluding nonprofits)

28. If debt was issued during the fiscal period, obtain supporting documentation from the entity, and report whether State Bond Commission approval was obtained.

29. If the entity had outstanding debt during the fiscal period, obtain supporting documentation from the entity and report whether the entity made scheduled debt service payments and maintained debt reserves, as required by debt covenants.

30. If the entity had tax millages relating to debt service, obtain supporting documentation and report whether millage collections exceed debt service payments by more than 10% during the fiscal period. Also, report any millages that continue to be received for debt that has been paid off.

Results: The Medical Center does not have any debt, therefore procedures 28, 29 and 30 are not applicable.

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Other

31. Inquire of management whether the entity had any misappropriations of public funds or assets. If so, obtain/review supporting documentation and report whether the entity reported the misappropriation to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

Results: Per inquiry of management, the Medical Center had no misappropriations of public funds or assets.

32. Observe and report whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at www.la.gov/hotline) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.

Results: The notices required by R.S. 24:523.1 concerning the reporting of misappropriations, fraud, waste or abuse are posted on the premises and website of the Medical Center.

33. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

Results: No exceptions regarding management's representations in the procedures above noted.