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

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

MARCH 31, 2017



Postlethwaite & Netterville

A Professional Accounting Corporation

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A Professional Accounting Corporation

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana (the District), a component unit of the Terrebonne Parish Consolidated Government, as of and for the years ended March 31, 2017 and 2016, and the related notes to the consolidated financial statements, which collectively comprise the District's basic consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to previously present fairly, in all material respects, the financial position of the District as of March 31, 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 management's discussion and analysis presented on pages 3 through 17, be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with accounting standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The other supplemental information on pages 41 through 48 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Baton Rouge, Louisiana

September 28, 2017

(except for the supplemental information on page 48
as to which the date is November 13, 2017)

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

Management's Discussion and Analysis

March 31, 2017

This section of the Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana (the District), annual financial report presents background information and management's analysis of the District's financial performance during the fiscal year that ended on March 31, 2017. Please read it in conjunction with the financial statements in this report.

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

Required Consolidated Financial Statements

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

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

Management's Discussion and Analysis

Financial Analysis of the District

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

Financial Highlights for the Year Ended March 31, 2017

- The District's assets increased by approximately \$33,806,000 or 9%, largely due to the \$20,000,000 2016 bond issuance.
- During the year, the District's total operating revenues increased by \$6,824,000 or 2% to \$281,135,000 from prior year while operating expenses increased \$8,548,000, or 3%, to \$280,094,000. The District has income from operations of \$1,041,000, which is .37% of total operating revenue and represents a decrease from the \$2,765,000 prior year income from operations. Net patient service revenue increased due to increased activity in catherization laboratory, surgical procedures and oncology areas. Expenses increased as well due to salaries, cost of drugs, medical supplies and implants.
- During fiscal year 2017, the District qualified to receive grant funding from eligible supplemental Medicaid payments. The amount of this funding in total operating revenue for the year is \$47,125,000, a decrease of \$3,432,000 from 2016 (includes an increase of \$7,258,000 or 465% from prior year for TGMC only, and a decrease of \$10,690,000 or 22% for SRMC only).
- Investment income decreased from prior year by \$3,271,000 due to an increase in unrealized loss on investments of \$3,349,000. In the prior year, investments incurred an unrealized gain of \$86,000 and in fiscal year 2017 investments incurred an unrealized loss of \$3,263,000 from market changes.
- During the fiscal year, the District made significant capital acquisitions totaling \$31,842,000 including the following:
 - Continuation of various information technology projects including automated electronic medical record technology and its support systems
 - Upgrade the infrastructure of the Facility
 - Various renovation projects of existing buildings
 - Purchase of diagnostic equipment due to improving technology

The source of the funding for these projects was derived from operations, issuance of \$20,000,000 of bonds payable, and drawing on investments as necessary.

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

Management's Discussion and Analysis

Net Position

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

Condensed Consolidated Statements of Net Position

TABLE 1

	March 31		Dollar	Percentage
	2017	2016	Change	Change
Total current assets	\$71,897	\$64,062	\$7,835	12%
Capital assets	163,478	150,136	13,342	9%
Other assets, including board designated and restricted investments	170,746	158,091	12,655	8%
Deferred outflows of resources	139	165	(26)	-16%
Total assets	\$406,260	\$372,454	\$33,806	9%
Current liabilities	\$62,729	\$41,580	\$21,149	51%
Long-term liabilities	63,596	47,887	15,709	33%
Total liabilities	126,325	89,467	36,858	41%
Net investment in capital assets	107,439	100,573	6,866	7%
Restricted net position	5,420	3,193	2,227	70%
Unrestricted net position	167,076	179,221	(12,145)	-7%
Total liabilities and net position	\$406,260	\$372,454	\$33,806	9%

As can be seen in Table 1, total assets and deferred outflows increased by \$33,806,000 to \$406,260,000 at March 31, 2017, up from \$372,454,000 at March 31, 2016. The change in total assets results primarily from the increase in Investments and Capital Assets.

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

Management's Discussion and Analysis

Summary of Revenues and Expenses

The following table presents a summary of the District's revenues and expenses for each of the years ended March 31, 2017 and 2016.

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

	March 31 2017	2016	Dollar Change	Percentage Change
Net patient service revenue	\$224,929	\$214,304	\$10,625	5%
Other revenue, net	56,206	60,007	(3,801)	-6%
Total operating revenue	281,135	274,311	6,824	2%
Salaries and employee benefits	89,579	85,794	3,785	4%
Supplies and materials	67,825	62,617	5,208	8%
Purchased services	87,857	89,103	(1,246)	-1%
Professional fees	6,691	5,049	1,642	33%
Other operating	10,345	10,407	(62)	-1%
Depreciation	17,797	18,576	(779)	-4%
Total operating expense	280,094	271,546	8,548	3%
Income from operations	1,041	2,765	(1,724)	-62%
Investment income including net unrealized losses on investments	696	3,967	(3,271)	-82%
Interest expense and amortization	(2,299)	(2,166)	(133)	6%
Loss on disposal of capital assets	(704)	-	(704)	---
Other expenses	(1,786)	(632)	(1,154)	183%
Total nonoperating expenses	(4,093)	1,169	(5,262)	-450%
Change in net position	(3,052)	3,934	(6,986)	-178%
Net position:				
Beginning of period	282,987	279,053		
End of period	\$279,935	\$282,987		

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

Management's Discussion and Analysis

Sources of Revenue

Operating Revenue

During fiscal year 2017, the District derived the majority of its operating revenue from patient revenues. Patient revenues include revenues from the Medicare and Medicaid programs and patients, or their third-party insurers, who pay for care in the District's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party insurers is based upon established contracts. The difference between the covered charges and the expected payment is recognized as a contractual allowance.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended March 31, 2017 and 2016.

**TABLE 3
Payor Mix**

	<u>2017</u>	<u>2016</u>
Medicare	50%	50%
Medicaid	21%	15%
Managed care	22%	26%
Self-pay and other	7%	9%
Total patient revenues	<u>100%</u>	<u>100%</u>

Other Operating Revenue

The District also generated other operating income of \$56,206,000 in fiscal year 2017 and \$60,007,000 in fiscal year 2016. Of this amount, \$47,125,000 in 2017 and \$50,557,000 in 2016 relates to grants from supplemental Medicaid payments. Remaining income does not relate to patient revenues and consists primarily of rental and retail income, reference lab income, cafeteria income, and other departmental income. Rental, retail, reference lab and cafeteria income account for \$4,490,000 and \$4,772,000 in fiscal years 2017 and 2016, respectively.

Non-operating Income

The District holds designated and restricted funds in its statements of net position that are invested primarily in money market funds and securities issued by the U.S. Treasury and its agencies and other federal agencies. These investments earned \$3,321,000 and \$3,256,000 during fiscal years 2017 and 2016, respectively. An unrealized loss on investments decreased investments by \$3,263,000 in fiscal year 2017 and an unrealized gain on investments increased investments by \$86,000 in fiscal year 2016.

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

Management's Discussion and Analysis

Operating and Financial Performance

The following summarizes the District's Statements of Revenues, Expenses, and Changes in Net Position between 2017 and 2016:

Overall activity at the District, as measured by patient discharges, decreased by .7% to 12,346 in 2017 compared to 12,433 in 2016. Patient days increased by .7% over prior year from 58,552 in 2016 to 58,939 in 2017. As a result, the average length of stay for the District increased by 2.1% with the stay length at 4.8 days in 2017 compared to 4.7 days in 2016.

Outpatient revenue increased in fiscal year 2017 due to the CEA with LSU regarding Chabert. As a result of increased gross revenue, net patient service revenue increased \$10,625,000, or 5% in 2017. Contractual allowances, excluding bad debt, increased to 68.6% of charges in 2017 from 65.0% in 2016.

Excluded from net patient service revenue are charges forgone for patient services falling under the District's charity care policy. Based on established rates, gross charges of \$26,406,000 were forgone during 2017 compared to \$47,215,000 in 2016, or a 44% decrease over the prior fiscal year. Provision for bad debts decreased by \$12,909,000, or 47.6% compared to the prior year.

Employee wages and compensation increased by \$3,785,000 over the prior year. Salaries and benefits were 31.9% and 31.3% of total operating revenue in 2017 and 2016, respectively.

Professional fees increased over the prior year by 33% or \$1,642,000 as a result of the new contracts initiated for physician initiatives and SRMC. The cost of supplies and materials increased by \$5,208,000, or 8% due to increased volume at TGMC in cardiology and oncology areas in addition to increases at SRMC. Purchased services decreased during the year by \$1,246,000 or 1% due to SRMC. Other operating expenses decreased by \$62,000 or 1% due to SRMC. Depreciation expense decreased by \$779,000 or 4% due to aging of assets and replacement accruing in fiscal year 2018. Total operating expenses increased by \$8,548,000, or 3%, for the year ended March 31, 2017.

Non-operating revenue consists of interest earnings on funds designated by the Board of Commissioners and funds held by trustee under bond resolution. The changes in fair value of these investments is also included in this amount. Non-operating revenue decreased over the prior year due to an decrease in the market value of investments compared to the prior year. Unrealized gains decreased from the prior year by \$3,349,000.

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

Management's Discussion and Analysis

Capital Assets

During fiscal year 2017, the District invested in a broad range of capital assets included in Table 4 below.

**TABLE 4
Capital Assets**

	March 31		Dollar	Percentage
	2017	2016	Change	Change
Land and land improvements	\$22,702	\$22,664	\$38	0%
Building	195,831	190,584	5,247	3%
Equipment	229,202	197,590	31,612	16%
Subtotal	447,735	410,838	36,897	9%
Less accumulated depreciation	286,621	270,137	16,484	6%
Construction-in progress	2,364	9,435	(7,071)	-75%
Net capital assets	<u>\$163,478</u>	<u>\$150,136</u>	<u>\$13,342</u>	9%

Net capital assets have increased due to the District continuing to enhance existing facilities and invest in information technology and other facility initiatives. During the fiscal year 2017, the District spent \$3,399,000 of its 2017 capital budget and \$25,901,000 on master facility plan spending. The District also has a strategic plan that incorporates a master facility plan for future expansion. The timing and priorities of the plan are available as a separate document.

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

Management's Discussion and Analysis

In Table 5, the District's fiscal year 2018 capital budget projects spending up to \$5,324,000 for capital projects, of which 49% is for replacement or regulatory/maintenance items. These projects will be financed from operations. The master facility spending plan will be funded from operations and designated investments. More information about the District's capital assets is presented in the notes to basic financial statements.

TABLE 5
Fiscal Year 2018 Capital Budget
(In Thousands)

Master Facility Plan	\$38,564
Replacement equipment	2,621
Contingency	1,399
New Technology	647
Other	657
Total	<u>\$43,888</u>

Long-Term Debt and Bond Refunding

At March 31, 2017, the District had \$67,210,000 in short-term and long-term debt, plus a premium of \$499,000, less a discount of \$145,000, for a total debt figure of \$67,564,000. More detailed information about the District's long-term liabilities is presented in the notes to basic consolidated financial statements. Total long term debt outstanding represents 17% of the District's total assets and deferred outflows at March 31, 2017.

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

Management's Discussion and Analysis

Financial Highlights for the Year Ended March 31, 2016

- The District's assets increased by approximately \$3,715,000 or 1%.
- During the year, the District's total operating revenues increased by \$9,816,000 or 4% to \$274,311,000 from prior year while operating expenses increased \$9,320,000, or 4%, to \$271,546,000. The District has income from operations of \$2,765,000, which is 1% of total operating revenue and represents an increase from the \$2,269,000 prior year income from operations. Net patient service revenue increased due to increased activity in catherization laboratory, surgical procedures and oncology areas. Expenses increased as well due to cost of drugs, medical supplies and implants.
- During fiscal year 2016, the District qualified to receive grant funding from eligible supplemental Medicaid payments. The amount of this funding in total operating revenue for the year is \$50,557,000, a decrease of \$428,000 or 22% from prior year for TGMC only, and a decrease of \$4,471,000 or 8% for SRMC.
- Investment income decreased over prior year by \$1,368,000 due to a decrease in unrealized gain on investments of \$1,092,000. In the prior year, investments incurred an unrealized gain of \$1,178,000 and in fiscal year 2016 investments incurred an unrealized gain of \$86,000 from market changes.
- During the fiscal year, the District made significant capital acquisitions totaling \$26,645,000 including the following:
 - Continuation of various information technology projects including automated electronic medical record technology and its support systems
 - Upgrade the infrastructure of the Facility
 - Various renovation projects of existing buildings
 - Purchase of diagnostic equipment due to improving technology

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

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

Management's Discussion and Analysis

Net Position

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

Condensed Consolidated Statements of Net Position

TABLE 1

	March 31		Dollar	Percentage
	2016	2015	Change	Change
Total current assets	\$64,062	\$72,861	(\$8,799)	-12%
Capital assets	150,136	142,110	8,026	6%
Other assets, including board designated investments	158,091	153,576	4,515	3%
Deferred outflows of resources	165	192	(27)	-14%
Total assets	\$372,454	\$368,739	\$3,715	1%
Current liabilities	\$41,580	\$39,557	\$2,023	5%
Long-term liabilities	47,887	50,129	(2,242)	-4%
Total liabilities	89,467	89,686	(219)	0%
Net investment in capital assets	100,573	90,490	10,083	11%
Restricted net position	3,193	3,146	47	1%
Unrestricted net position	179,221	185,417	(6,196)	-3%
Total liabilities and net position	\$372,454	\$368,739	\$3,715	1%

As can be seen in Table 1, total assets and deferred outflows increased by \$3,715,000 to \$372,454,000 at March 31, 2016, up from \$368,739,000 at March 31, 2015. The change in total assets results primarily from the increase in Investments and Capital.

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

Management's Discussion and Analysis

Summary of Revenues and Expenses

The following table presents a summary of the District's revenues and expenses for each of the years ended March 31, 2016 and 2015.

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

	March 31		Dollar	Percentage
	2016	2015	Change	Change
Net patient service revenue	\$214,304	\$200,361	\$13,943	7%
Other revenue, net	60,007	64,134	(4,127)	-6%
Total operating revenue	<u>274,311</u>	<u>264,495</u>	9,816	4%
Salaries and employee benefits	85,794	83,223	2,571	3%
Supplies and materials	62,617	61,516	1,101	2%
Purchased services	89,103	84,157	4,946	6%
Professional fees	5,049	4,981	68	1%
Other operating	10,407	10,300	107	1%
Depreciation	18,576	18,049	527	3%
Total operating expense	<u>271,546</u>	<u>262,226</u>	9,320	4%
Income from operations	2,765	2,269	496	22%
Investment income including net unrealized losses on investments	3,967	5,335	(1,368)	-26%
Interest expense and amortization	(2,166)	(2,241)	75	-3%
Other expenses	(632)	(729)	97	-13%
Total nonoperating expenses	<u>1,169</u>	<u>2,365</u>	(1,196)	-51%
Change in net position	3,934	4,634	(700)	
Net position:				
Beginning of period	<u>279,053</u>	<u>274,419</u>		
End of period	<u>\$282,987</u>	<u>\$279,053</u>		

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

Management's Discussion and Analysis

Sources of Revenue

Operating Revenue

During fiscal year 2016, the District derived the majority of its operating revenue from patient revenues. Patient revenues include revenues from the Medicare and Medicaid programs and patients, or their third-party insurers, who pay for care in the District's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party insurers is based upon established contracts. The difference between the covered charges and the expected payment is recognized as a contractual allowance.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended March 31, 2016 and 2015.

TABLE 3
Payor Mix

	<u>2016</u>	<u>2015</u>
Medicare	50%	49%
Medicaid	15%	14%
Managed care	26%	26%
Self-pay and other	9%	11%
Total patient revenues	<u>100%</u>	<u>100%</u>

Other Operating Revenue

The District also generated other operating income of \$60,007,000 in fiscal year 2016 and \$64,134,000 in fiscal year 2015. Of this amount, \$50,557,000 in 2016 and \$55,456,000 in 2015 relates to grants from supplemental Medicaid payments. Remaining income does not relate to patient revenues and consists primarily of rental and retail income, reference lab income, cafeteria income, and other departmental income. Rental, retail, reference lab and cafeteria income account for \$4,772,000 and \$4,749,000 in fiscal years 2016 and 2015, respectively.

Non-operating Income

The District holds designated and restricted funds in its statements of net position that are invested primarily in money market funds and securities issued by the U.S. Treasury and its agencies and other federal agencies. These investments earned \$3,256,000 and \$3,279,000 during fiscal year 2016 and 2015, respectively. An unrealized gain on investments increased investments by \$86,000 in fiscal year 2016 and an unrealized gain on investments increased investments by \$1,178,000 in fiscal year 2015.

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

Management's Discussion and Analysis

Operating and Financial Performance

The following summarizes the District's Statements of Revenues, Expenses, and Changes in Net Position between 2016 and 2015:

Overall activity at the District, as measured by patient discharges, decreased by 11.1% to 12,433 in 2016 compared to 13,979 in 2015. Patient days decreased by 9.4% over prior year from 64,637 in 2015 to 58,552 in 2016. As a result, the average length of stay for the District increased by 2.2% with the stay length at 4.7 days in 2016 compared to 4.6 days in 2015.

Outpatient revenue increased in fiscal year 2016 due to the CEA with LSU regarding Chabert. As a result of increased gross revenue, net patient service revenue increased \$13,943,000, or 7% in 2016. Contractual allowances, excluding bad debt, decreased to 65.0% of charges in 2016 from 68.1% in 2015.

Excluded from net patient service revenue are charges forgone for patient services falling under the District's charity care policy. Based on established rates, gross charges of \$47,215,000 were forgone during 2016 compared to \$31,517,000 in 2015, or a 50% increase over the prior fiscal year. Provision for bad debts increased by \$10,087,000, or 59.3% compared to the prior year. Charity Care and provision of bad debt increased due to TGMC.

Employee wages and compensation increased by \$2,571,000 over the prior year. Salaries and benefits were 31.3% and 31.5% of total operating revenue in 2016 and 2015, respectively.

Professional fees increased over the prior year by 1% or \$68,000 as a result of the new contracts initiated for physician initiatives. The cost of supplies and materials increased by \$1,101,000, or 2% due to increased volume at TGMC in cardiology and oncology areas. Purchased services increased during the year by \$4,946,000 or 6% due to SRMC. Other operating expenses increased by \$107,000 or 1% due to SRMC. Depreciation expense increased by \$527,000 or 3% due to upgrades in the infrastructure of the facility, additional information technology equipment. Total operating expenses increased by \$9,320,000, or 4%, for the year ended March 31, 2016.

Non-operating revenue consists of interest earnings on funds designated by the Board of Commissioners and funds held by trustee under bond resolution. The changes in fair value of these investments is also included in this amount. Non-operating revenue decreased over the prior year due to an decrease in the market value of investments compared to the prior year. Unrealized gains decreased from the prior year by \$1,092,000.

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

Management's Discussion and Analysis

Capital Assets

During fiscal year 2016, the District invested in a broad range of capital assets included in Table 4 below.

**TABLE 4
Capital Assets**

	March 31 2016	March 31 2015	Dollar Change	Percentage Change
Land and land improvements	\$22,664	\$22,537	\$127	1%
Building	190,584	182,352	8,232	5%
Equipment	197,590	184,721	12,869	7%
Subtotal	410,838	389,610	21,228	5%
Less accumulated depreciation	270,137	252,147	17,990	1%
Construction-in progress	9,435	4,647	4,788	103%
Net capital assets	\$150,136	\$142,110	\$8,026	6%

Net capital assets have increased due to the District continuing to enhance existing facilities and invest in information technology and other facility initiatives. During the fiscal year 2016, the District spent \$7,087,000 of its 2016 capital budget and \$18,931,000 on master facility plan spending. The District also has a strategic plan that incorporates a master facility plan for future expansion. The timing and priorities of the plan are available as a separate document.

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

Management's Discussion and Analysis

In Table 5, the District's fiscal year 2017 capital budget projects spending up to \$7,403,000 for capital projects, of which 41% is for replacement or regulatory/maintenance items. These projects will be financed from operations. The master facility spending plan will be funded from operations and designated investments. More information about the District's capital assets is presented in the notes to basic financial statements.

TABLE 5
Fiscal Year 2017 Capital Budget
(In Thousands)

Master Facility Plan	\$50,017
Replacement equipment	3,032
Contingency	1,453
New Technology	882
Other	2,036
Total	<u>\$57,420</u>

Long-Term Debt and Bond Refunding

At March 31, 2016, the District had \$49,295,000 in short-term and long-term debt, plus a premium of \$590,000, less a discount of \$157,000, for a total debt figure of \$49,728,000. More detailed information about the District's long-term liabilities is presented in the notes to basic consolidated financial statements. Total long term debt outstanding represents 13% of the District's total assets and deferred outflows at March 31, 2016.

Subsequent Event

In August 2016, the District issued debt in the amount of \$20,000,000. The purpose of this debt is to finance the purchasing and installing of software for an Electronic Medical Record system.

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

CONSOLIDATED STATEMENTS OF NET POSITION
MARCH 31, 2017 AND 2016

ASSETS AND DEFERRED OUTFLOWS

<i>(in thousands)</i>	<u>2017</u>	<u>2016</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 19,113	\$ 14,432
Patient accounts receivable, net of allowances for doubtful accounts and contractual adjustments of \$48,222 in 2017 and \$43,481 in 2016	16,389	18,809
Estimated net receivables under government programs	17,896	13,310
Inventories	4,708	4,264
Prepaid expenses	3,916	7,386
Other current assets	4,455	2,668
Funds held by trustee under bond resolution	5,420	3,193
Total current assets	<u>71,897</u>	<u>64,062</u>
<u>CAPITAL ASSETS</u>		
Land and land improvements	22,702	22,664
Buildings	195,831	190,584
Equipment	229,202	197,590
Construction-in-progress	2,364	9,435
	<u>450,099</u>	<u>420,273</u>
Less: accumulated depreciation and amortization	286,621	270,137
Net capital assets	<u>163,478</u>	<u>150,136</u>
<u>INVESTMENTS AND ACCRUED INTEREST</u>		
Funds designated by Board of Commissioners for plant replacement and expansion, including accrued interest of \$819 in 2017 and \$849 in 2016	155,221	154,584
Restricted for capital projects	11,525	-
Total investments and accrued interest	<u>166,746</u>	<u>154,584</u>
<u>OTHER ASSETS</u>		
Other assets	4,000	3,507
Total other assets	<u>4,000</u>	<u>3,507</u>
Total assets	<u>406,121</u>	<u>372,289</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>139</u>	<u>165</u>
<u>TOTAL ASSETS AND DEFERRED OUTFLOWS</u>	<u>\$ 406,260</u>	<u>\$ 372,454</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

<i>(in thousands)</i>	<u>2017</u>	<u>2016</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued liabilities	\$ 26,879	\$ 12,329
Salaries and employee benefit liabilities	6,722	6,497
Accrued interest payable	1,286	1,107
Self-insurance reserves	1,654	1,822
Other current liabilities	22,053	17,740
Current maturities of long-term debt	4,135	2,085
Total current liabilities	<u>62,729</u>	<u>41,580</u>
<u>LONG-TERM LIABILITIES</u>		
Hospital revenue bonds, less current portion (net of premium of \$499 and discount of \$145 in 2017 and premium of \$590 and discount of \$157 in 2016)	63,429	47,643
Other accrued liabilities, less current portion	167	244
Total long-term debt	<u>63,596</u>	<u>47,887</u>
Total liabilities	<u>126,325</u>	<u>89,467</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Total liabilities and deferred inflows	<u>-</u>	<u>-</u>
<u>NET POSITION</u>		
Net investment in capital assets	107,439	100,573
Restricted for debt service	5,420	3,193
Unrestricted	167,076	179,221
Total net position	<u>279,935</u>	<u>282,987</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 406,260</u>	<u>\$ 372,454</u>

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

**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
YEARS ENDED MARCH 31, 2017 AND 2016**

(in thousands)

	<u>2017</u>	<u>2016</u>
<u>OPERATING REVENUES</u>		
Net patient service revenue	\$ 224,929	\$ 214,304
Other operating revenue, net	<u>56,206</u>	<u>60,007</u>
Total operating revenues	<u>281,135</u>	<u>274,311</u>
<u>OPERATING EXPENSES</u>		
Salaries and employee benefits	89,579	85,794
Supplies and materials	67,825	62,617
Purchased services	87,857	89,103
Professional fees	6,691	5,049
Other operating expenses	10,345	10,364
Depreciation	<u>17,797</u>	<u>18,576</u>
Total operating expenses	<u>280,094</u>	<u>271,503</u>
INCOME FROM OPERATIONS	<u>1,041</u>	<u>2,808</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Investment revenue (losses) including unrealized gains (losses) of (\$3,263) in 2017 and \$86 in 2016	58	3,342
Interest expense	(2,299)	(2,166)
Gain on other investments	638	625
Loss on disposal of capital assets	(704)	(43)
Other expenses	<u>(1,786)</u>	<u>(632)</u>
Total nonoperating revenues (expenses)	<u>(4,093)</u>	<u>1,126</u>
CHANGE IN NET POSITION	(3,052)	3,934
Net position - beginning of year	<u>282,987</u>	<u>279,053</u>
NET POSITION - END OF YEAR	<u>\$ 279,935</u>	<u>\$ 282,987</u>

The accompanying notes are an integral part of these statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2017 AND 2016

(in thousands)

	<u>2017</u>	<u>2016</u>
<u>Operating activities</u>		
Cash collected from patients and third-party payors	\$ 278,969	\$ 273,325
Cash payments to employees and for employee-related costs	(89,354)	(84,967)
Cash payments for operating expenses	(154,747)	(166,940)
Net cash provided by operating activities	<u>34,868</u>	<u>21,418</u>
<u>Capital and related financing activities</u>		
Purchases of capital assets	(32,057)	(26,602)
Principal and defeasance payments on bonds	(2,085)	(2,000)
Proceeds from issuance of bonds	20,000	-
Bond issuance costs paid	(271)	-
Interest payments on debt	(2,081)	(2,223)
Net cash used in capital and related financing activities	<u>(16,494)</u>	<u>(30,825)</u>
<u>Investing activities</u>		
Interest received on investments	696	3,967
Purchases of investments	(121,659)	(72,723)
Proceeds on sales or maturity of investments	107,270	68,732
Net cash used in investing activities	<u>(13,693)</u>	<u>(24)</u>
Net change in cash and cash equivalents	4,681	(9,431)
Cash and cash equivalents at beginning of year	<u>14,432</u>	<u>23,863</u>
Cash and cash equivalents at end of year	<u>\$ 19,113</u>	<u>\$ 14,432</u>

The accompanying notes are an integral part of these statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
YEARS ENDED MARCH 31, 2017 AND 2016

(in thousands)

	<u>2017</u>	<u>2016</u>
<u>Reconciliation of operating income to net cash provided by operating activities</u>		
Income from operations	\$ 1,041	\$ 2,765
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	17,797	18,576
Provision for bad debts	14,194	27,103
Other nonoperating income	214	-
Changes in operating assets and liabilities:		
Patient accounts receivable	(11,774)	(27,658)
Government program receivables	(4,586)	(431)
Other assets	746	(170)
Accounts payable and accrued liabilities	17,236	1,233
Net cash provided by operating activities	<u>\$ 34,868</u>	<u>\$ 21,418</u>

The accompanying notes are an integral part of these statements.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2017

1. Summary of Significant Accounting Policies

Organization

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana, (the District), a political subdivision of the state of Louisiana and a component unit of the Terrebonne Parish Consolidated Government, owns and operates Terrebonne General Medical Center (“TGMC”), Southern Regional Medical Corporation (“SRMC”), and Physician Practice Partners (“PPP”). The TGMC campus is a 321-bed acute care facility, and the SRMC campus is a 156-bed facility, providing comprehensive medical services in southeast Louisiana. PPP is a group of physicians performing professional services on the TGMC campus.

Basis of Consolidation

The consolidated financial statements include the District and Southern Regional Medical Corporation (“SRMC”), a wholly owned non-profit corporation formed for the purpose of entering into an agreement with the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (“LSU”), the Louisiana Division of Administration (“DOA”), and the State of Louisiana through the Division of Administration (the “State”) and the Louisiana Department of Health & Hospitals) (“DHH”). The accompanying consolidated financial statements include the consolidated accounts of the District, which comprise TGMC and the District’s controlled subsidiary, SRMC and PPN. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Basis of Accounting

The District uses the accrual basis of accounting for proprietary funds. The statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent they have been made authoritative under Governmental Accounting Standards Board (GASB) Statement 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements*.

Cash and Cash Equivalents

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

Inventories

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

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2017

1. Summary of Significant Accounting Policies (continued)

Investments

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

Other Assets

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

Capital Assets

Property is recorded at acquisition cost. Depreciation is provided using the straight-line method based on the estimated useful lives of the assets, which range from 3 to 39 years. Depreciation expense was \$17,797,000 and \$18,576,000 for the years ended March 31, 2017 and 2016, respectively.

Deferred Outflows and Inflows

Deferred outflows represent the consumption of government's net position that is applicable to a future reporting period. A deferred inflow represents the acquisition of net position that is applicable to a future reporting period. The District's deferred outflows at March 31, 2017 and 2016 consist of deferred amounts on bond refinancing. The District has no deferred inflows at March 31, 2017 and 2016.

Net Position

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

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

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2017

1. Summary of Significant Accounting Policies (continued)

Net Position (continued)

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

Restricted net position is when there are limitations imposed on their use by external parties such as creditors, grantors, laws or regulations of other governments. Restricted net position also includes resources related to unspent debt proceeds. Restricted net position consists of restricted assets less liabilities related to restricted assets less deferred inflows related to restricted assets. Liabilities and deferred inflows related to restricted assets include liabilities and deferred inflows to be liquidated with restricted assets and arising from the same resource flow that results in restricted assets. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

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

Revenue and Expenses

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are included in operating income; all peripheral transactions are reported as nonoperating revenues and expenses. Other operating income for 2017 and 2016 includes approximately \$47,125,000 and \$50,557,000, respectively, which relates to grants from supplemental Medicaid payments. Operating expenses are all expenses incurred to provide health services, other than financing costs.

Net Patient Service Revenue

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

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

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2017

1. Summary of Significant Accounting Policies (continued)

Accounts Receivable

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

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

Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Records of charges foregone for services and supplies furnished under the charity care policy are maintained to identify and monitor the level of charity care provided (see footnote #12).

Income Taxes

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

Professional Liability Claims

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

Use of Estimates

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

Compensated Absences

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

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2017

1. Summary of Significant Accounting Policies (continued)

Change in Accounting Principle

During the year ended March 31, 2017, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 72 (GASB 72), *Fair Value Measurement and Application*. GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of 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. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of GASB 72 are effective for financial statements for periods beginning after June 15, 2015. The adoption of this standard had no impact on the total net position of the District.

2. Cash and Investments

The composition of designated or restricted cash and investments at March 31, 2017 and 2016, is set forth below:

	March 31, 2017			
	Cash and Cash Equivalents	Fixed Income Investments	Other Assets	Total
	<i>(in thousands)</i>			
Board-designated -	\$ 10,847	\$ 144,675	\$ -	\$ 155,522
Discounts/premium	-	(1,120)	-	(1,120)
Accrued Interest	-	-	819	819
Total Board-designated	10,847	143,555	819	155,221
Restricted -				
2010 bond issue:				
Interest expense fund	751	-	-	751
Principal fund	2,000	-	-	2,000
Total 2010 bond issue	2,751	-	-	2,751
2013 supplemental bond issue:				
Interest expense fund	315	-	-	315
Principal fund	165	-	-	165
Total 2013 supplemental bond issue	480	-	-	480
2016 supplemental bond issue:				
Interest expense fund	219	-	-	219
Principal fund	1,970	-	-	1,970
Construction fund	11,498	-	-	11,498
Bond expense fund	27	-	-	27
Total 2016 supplemental bond issue	13,714	-	-	13,714
Total designated cash and investments	\$ 27,792	\$ 143,555	\$ 819	\$ 172,166

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2017

2. Cash and Investments (continued)

	March 31, 2016			
	Cash and Cash Equivalents	Fixed Income Investments	Other Assets	Total
	<i>(in thousands)</i>			
Board-designated -	\$9,121	\$146,243	\$ -	\$155,364
Discounts/premium	-	(1,629)	-	(1,629)
Accrued Interest	-	-	849	849
Total Board-designated	9,121	144,614	849	154,584
Restricted -				
2010 bond issue:				
Interest expense fund	789	-	-	789
Principal fund	1,920	-	-	1,920
Total 2010 bond issue	2,709	-	-	2,709
2013 supplemental bond issue:				
Interest expense fund	319	-	-	319
Principal fund	165	-	-	165
Total 2013 supplemental bond issue	484	-	-	484
Total designated cash and investments	\$12,314	\$144,614	\$849	\$157,777

Louisiana state statutes authorize the District to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the state of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions. Due to these restrictions, the District does not have a formal policy that limits the types of investments. During the years ended March 31, 2017 and 2016, the District invested primarily in securities issued by the U.S. Treasury and other federal agencies. The District has a \$22,671,000 named wind storm deductible on its insurance policy and has designated a portion of these funds to cover any outlay that may result from such an event.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2017

2. Cash and Investments (continued)

Credit Risk – Investments

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The standardized ratings systems are a good tool with which to assess credit risk on debt obligations. The following table can be used in determining the level of exposure to credit risk as of March 31, 2017 and 2016:

<u>Risk Rating</u>	<u>Fair Value at 3/31/17</u>	<u>Fair Value at 3/31/16</u>
AAA	\$ 57,333	\$ 55,890
AA	10,878	3,557
A	4,943	3,018
Other	<u>1,112</u>	<u>4,026</u>
	\$ 74,266	\$ 66,491
US Govt or obligations explicitly guaranteed	<u>\$ 70,409</u>	<u>\$ 79,752</u>
Total	<u>\$ 144,675</u>	<u>\$ 146,243</u>

Obligations of the U.S. government or explicitly guaranteed by the U.S. government are not considered to have credit risk. The investments qualifying for this classification total \$70,409,000 and \$79,752,000 in fair market value at March 31, 2017 and 2016, respectively. The District had investments in obligations that are implicitly guaranteed by the U.S. government and therefore have credit risk exposure, with a fair value of \$72,141,000 and \$64,858,000 at March 31, 2017 and 2016, respectively.

Concentration of Credit Risk

Per GASB Statement 40, *Deposit and Investment Risk Disclosures*, concentration of credit risk is defined as the risk of loss attributed to the magnitude of government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than five percent (5%) of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. The District has investments in Federal Farm Credit Banks, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association that represented 0.1%, 2.2%, 9.3%, and 19.9%, respectively, of the total investments at March 31, 2017, and 3.4%, 0.7%, 8.2%, and 16.6% respectively, of the total investments at March 31, 2016.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2017

2. Cash and Investments (continued)

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the District be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. As of March 31, 2017, \$27,167,475 of the District's bank balance of \$28,917,475 was exposed to credit risk as uninsured and collateralized with securities held by the pledging financial institution. As of March 31, 2016, \$20,778,567 of the District's bank balance of \$22,528,567 was exposed to credit risk as uninsured and collateralized with securities held by the pledging financial institution.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of March 31, 2017 and 2016, the District was not exposed to custodial credit risk for its investments as all were registered in the name of the District.

Interest Rate Risk – Investments

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

Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The table below summarizes the District's segmented time distribution investment maturities in years by investment type as of March 31, 2017.

Investment Type	Fair Value	Years		
		<1	1-5	>5
		<i>(In Thousands)</i>		
U.S. Treasuries	\$ 41,149	\$ 1,276	\$ 21,137	\$ 18,736
Federal National Mortgage Association	28,765	968	8,226	19,571
Federal Home Loan Bank	3,214	997	2,217	-
Federal Home Loan Mortgage Corporation	13,446	12	7,701	5,733
Federal Farm Credit Banks	157	-	157	-
Government National Mortgage Association	12,111	-	129	11,982
Small Business Association	15,346	9	1,012	14,325
U.S. Department of Housing and Urban Development	1,802	-	1,123	679
Securities guaranteed by the U.S. Government	26,560	4,550	13,917	8,093
State of Louisiana	2,125	802	1,323	-
	<u>\$ 144,675</u>	<u>\$ 8,614</u>	<u>\$ 56,942</u>	<u>\$ 79,119</u>

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2017

2. Cash and Investments (continued)

Interest Rate Risk – Investments (continued)

The table below summarizes the District's segmented time distribution investment maturities in years by investment type as of March 31, 2016.

Investment Type	Fair Value	Years		
		<1	1-5	>5
		<i>(In Thousands)</i>		
U.S. Treasuries	\$ 49,381	\$ 3,348	\$ 25,708	\$ 20,325
Federal National Mortgage Association	24,332	-	8,865	15,467
Federal Home Loan Bank	1,002	435	567	-
Federal Home Loan Mortgage Corporation	11,984	945	3,036	8,003
Federal Farm Credit Banks	4,955	1,014	2,937	1,004
Government National Mortgage Association	13,616	-	375	13,241
Small Business Association	14,781	93	666	14,022
U.S. Department of Housing and Urban Development	1,974	-	602	1,372
Securities guaranteed by the U.S. Government	22,585	-	14,464	8,121
State of Louisiana	1,633	-	1,633	-
	<u>\$ 146,243</u>	<u>\$ 5,835</u>	<u>\$ 58,853</u>	<u>\$ 81,555</u>

3. Fair Value Measurements

To the extent available, the District's investments are recorded at fair value as of March 31, 2017. GASB Statement No. 72 – *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2017

3. Fair Value Measurements (continued)

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

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

A summary of the District's investments along with the fair value hierarchy levels of each type of investment is as follows as of March 31, 2017:

	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Fixed income securities:				
U.S. Treasuries	\$ 41,149	\$ -	\$ 41,149	\$ -
Federal National Mortgage Association	28,765	-	28,765	-
Federal Home Loan Bank	3,214	-	3,214	-
Federal Home Loan Mortgage Corporation	13,446	-	13,446	-
Federal Farm Credit Banks	157	-	157	-
Government National Mortgage Association	12,111	-	12,111	-
Small Business Association	15,346	-	15,346	-
U.S. Department of Housing and Urban Development	1,802	-	1,802	-
State of Louisiana	2,125	-	2,125	-
Total fixed income securities	118,115	-	118,115	-
Equity securities	26,560	22,379	4,181	-
Total Investments at Fair Value Level	\$ 144,675	\$ 22,378	\$ 122,296	\$ -

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2017

3. Fair Value Measurements (continued)

A summary of the District's investments along with the fair value hierarchy levels of each type of investment is as follows as of March 31, 2016:

	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Fixed income securities:				
U.S. Treasuries	\$ 49,381	\$ -	\$ 49,381	\$ -
Federal National Mortgage Association	24,332	-	24,332	-
Federal Home Loan Bank	1,002	-	1,002	-
Federal Home Loan Mortgage Corporation	11,984	-	11,984	-
Federal Farm Credit Banks	4,955	-	4,955	-
Government National Mortgage Association	13,616	-	13,616	-
Small Business Association	14,781	-	14,781	-
U.S. Department of Housing and Urban Development	1,974	-	1,974	-
State of Louisiana	1,633	-	1,633	-
Total fixed income securities	123,658	-	123,658	-
Equity securities	22,585	18,295	4,290	-
Total Investments at Fair Value Level	\$ 146,243	\$ 18,295	\$ 127,948	\$ -

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2017

4. Capital Assets

The District's investment in capital assets consisted of the following as of March 31, 2017:

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
	<i>(in thousands)</i>			
Land and land improvements	\$ 22,664	\$38	\$ -	\$ 22,702
Buildings	190,584	5,247	-	195,831
Equipment	197,590	33,628	(2,016)	229,202
Construction-in-progress	9,435	26,849	(33,920)	2,364
	<u>420,273</u>	<u>65,762</u>	<u>(35,936)</u>	<u>450,099</u>

Accumulated Depreciation				
Land and land improvements	6,768	345	-	7,113
Buildings	97,795	6,869	-	104,664
Equipment	165,574	10,583	(1,313)	174,844
Other capital assets, net of depreciation	270,137	17,797	(1,313)	286,621
Capital assets, net	<u>\$150,136</u>	<u>\$47,965</u>	<u>(\$34,623)</u>	<u>\$163,478</u>

The District's investment in capital assets consisted of the following as of March 31, 2016:

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
	<i>(in thousands)</i>			
Land and land improvements	\$ 22,537	\$127	\$ -	\$ 22,664
Buildings	182,352	8,232	-	190,584
Equipment	184,721	13,506	(637)	197,590
Construction-in-progress	4,647	19,418	(14,630)	9,435
	<u>394,257</u>	<u>41,283</u>	<u>(15,267)</u>	<u>420,273</u>

Accumulated Depreciation				
Land and land improvements	6,375	393	-	6,768
Buildings	91,218	6,577	-	97,795
Equipment	154,554	11,606	(586)	165,574
Other capital assets, net of depreciation	252,147	18,576	(586)	270,137
Capital assets, net	<u>\$142,110</u>	<u>\$22,707</u>	<u>(\$14,681)</u>	<u>\$150,136</u>

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2017

5. Debt

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

	March 31	
	<u>2017</u>	<u>2016</u>
	<i>(in thousands)</i>	
Hospital Revenue Bonds, Series 2013, 2.75% to 4.0%	\$16,345	\$16,510
Hospital Revenue Bonds, Series 2010, 3.0% to 5.0%	30,865	32,785
Hospital Revenue Bonds, Series 2016, 1.83%	20,000	-
	<u>67,210</u>	<u>49,295</u>
Less: amounts due within one year	4,135	2,085
Long-term portion of debt	<u>\$ 63,075</u>	<u>\$ 47,210</u>

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

On April 1, 2013, the District completed the issuance of \$16,815,000 of Series 2013 Revenue Refunding Bonds to refund the Series 2003 Bonds and pay for the cost of issuing the bonds. The 2013 bonds are serial bonds with semiannual interest payments due April 1 and October 1 of each year. The bonds mature in varying installments through 2034 and are subject to mandatory redemption through a sinking fund that requires the District to fund debt service of approximately \$4,150,000 annually through the year 2034. The bonds are secured by a pledge and assignment of all revenue, after operating expenses, derived by the District. The bonds are also secured by a mortgage and security agreement of the land on which the District is located. Under the terms of the bond agreement, certain maturities of principal due on the bonds, as well as interest accruing on the bonds, must be funded to the trustee prior to actual payment to the bondholders.

The 2010 bonds are serial bonds with semiannual interest payments due April 1 and October 1 of each year. The bonds mature in varying installments through 2028 and are subject to mandatory redemption through a sinking fund that requires the District to fund debt service of approximately \$4,500,000 annually through the year 2028. The bonds are secured by a pledge and assignment of all revenue, after operating expenses, derived by the District. The bonds are also secured by a mortgage and security agreement of the land on which the District is located. Under the terms of the bond agreement, certain maturities of principal due on the bonds, as well as interest accruing on the bonds, must be funded to the trustee prior to the actual payment to the bondholders.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2017

5. Debt (continued)

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

	Principal	Interest
2018	4,135	2,474
2019	4,030	2,307
2020	4,180	2,164
2021	4,325	2,019
2022	4,480	1,867
2023 – 2027	25,135	6,780
2028 – 2032	16,935	2,428
2033 – 2034	3,990	161
Total	\$ 67,210	\$ 20,200

The District was in compliance with all covenants of its outstanding bond issues at March 31, 2017 and 2016.

6. Third-Party Payor Arrangements

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

	2017	2016
Medicare	46.4%	43.6%
Medicaid	10.7%	6.7%

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

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2017

6. Third-Party Payor Arrangements (continued)

Regulations in effect require annual retroactive settlements for costs reimbursed under these federal programs based upon cost reports filed by the Hospital. The difference between the estimate of these settlements and the final determination of amounts earned under cost reimbursement and prospective payment activities is subject to review by the appropriate governmental authority or its agents. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. These adjustments resulted a change to net patient service revenue of (\$124,598) in 2017 and \$11,000 in 2016. Estimated settlements through March 31, 2013, for the Medicare program and through March 31, 2012 for the Medicaid program have been reviewed by program representatives, and adjustments have been recorded to reflect any revisions to the recorded estimates required. The settlement of these cost reports provides the Hospital with updated information that serves as the basis to adjust estimated settlement amounts. Management believes that adequate provision has been made for adjustments that may result from the final determination of amounts earned under these programs.

7. Net Patient Service Revenue

Net patient service revenue is comprised of the following:

	Years Ended March 31	
	2017	2016
	<i>(in thousands)</i>	
Total gross patient service charges, excluding charity care	\$ 762,099	\$ 689,721
Contractual and other allowances:		
Medicare	270,466	242,439
Medicaid	136,586	88,770
Managed care organizations	86,917	77,104
Other	29,007	40,001
Provisions for bad debts	14,194	27,103
Total contractual and other allowances	537,170	475,417
Net patient service revenue	\$ 224,929	\$ 214,304

8. Retirement Plan

The District has a contributory money accumulation pension plan covering all of its full-time employees. Plan participants may contribute to the pension plan. The District contributes amounts from 4% to 5% of each participant's salary to the plan depending upon length of service. Pension expense was approximately \$2,128,000 in 2017 and \$2,024,000 in 2016.

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

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2017

9. Commitments and Contingencies

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

The District is self-insured for workers' compensation up to \$400,000 per claim and for employee health insurance up to \$225,000 per claim. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors.

The District purchased commercial insurance that provides coverage for professional liability, workers' compensation, and employee health claims in excess of the self-insured limits. Changes in the District's aggregate claims liability for medical malpractice, workers' compensation, and employee health insurance in fiscal years 2017 and 2016 were as follows (in thousands):

Year Ended March 31	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2017	\$1,822	\$9,567	\$9,735	\$1,654
2016	\$2,722	\$7,536	\$8,436	\$1,822

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

The District has signed several contracts with major contractors for various construction projects. In addition, a contract is still active with a software vendor to purchase upgrades and additional modules for the District's business and clinical information systems. The detailed terms of these agreements are proprietary and they will result in an estimated cost of \$1,782,000.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2017

10. Leases

The District leases office space and clinical facilities, generally to members of its medical staff, under operating leases whose terms range from one to five years. Assets held for lease at March 31, 2017, consisted of land, buildings and improvements including fixed equipment with total costs of \$36,748,000. Accumulated depreciation of the leased assets totaled \$23,721,000 at March 31, 2017.

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

<u>Year ending</u> <u>March 31st</u>	<u>Amount</u> <u>(in thousands)</u>
2018	\$ 1,441
2019	1,078
2020	986
2021	951
2022	885

11. Subsequent Event

In September 2017, the District completed the issuance of \$8,970,000 of Series 2017 Hospital Revenue Refunding Bonds to refund certain portions of the callable maturities of the Series 2010 Bonds and to pay the cost of issuing the Series 2017 Bonds.

The District has evaluated subsequent events through September 28, 2017, the date the consolidated financial statements were available to be issued, and no other subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana
Notes to Consolidated Financial Statements
March 31, 2017

12. Community Support (Unaudited)

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

The District has served the community during the years ended March 31, 2017 and 2016, as follows:

	2017	2016
	(in thousands)	
Care for the indigent:		
Traditional charity care (in charges)	\$770	\$937
Self Pay discounts (in charges)	3,361	5,184
Unreimbursed government program costs:		
Unpaid costs of State programs	8,603	5,748
Unpaid costs of Federally funded programs	8,924	5,036
Benefits for Community and Region:		
Community Health Services	933	787
Community Building Activities	183	276
Community Benefit Operations	195	238
Health Professions Education	285	199
Subsidized Health Services	1,030	877
Community Outreach	391	424
Research	-	38
Costs and Services directly provided to the Community	3,017	2,839
Total quantifiable Community Benefits	\$24,675	\$19,744

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

OTHER SUPPLEMENTAL INFORMATION

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

CONSOLIDATING STATEMENT OF NET POSITION

MARCH 31, 2017

ASSETS AND DEFERRED OUTFLOWS

<i>(in thousands)</i>	<u>TGMC</u>	<u>SRMC</u>	<u>Consolidated</u>
<u>CURRENT ASSETS</u>			
Cash and cash equivalents	\$ 6,756	\$ 12,357	\$ 19,113
Patient accounts receivable, net of allowances for doubtful accounts and contractual adjustments of \$48,222 in 2017	9,461	6,928	16,389
Estimated net receivables under government programs	17,122	774	17,896
Inventories	3,804	904	4,708
Prepaid expenses	3,916	-	3,916
Other current assets	4,397	58	4,455
Funds held by trustee under bond resolution	5,420	-	5,420
Total current assets	<u>50,876</u>	<u>21,021</u>	<u>71,897</u>
<u>CAPITAL ASSETS</u>			
Land and land improvements	22,702	-	22,702
Buildings	195,015	816	195,831
Equipment	224,570	4,632	229,202
Construction-in-progress	2,364	-	2,364
	<u>444,651</u>	<u>5,448</u>	<u>450,099</u>
Less: accumulated depreciation and amortization	<u>285,112</u>	<u>1,509</u>	<u>286,621</u>
Net capital assets	<u>159,539</u>	<u>3,939</u>	<u>163,478</u>
<u>INVESTMENTS AND ACCRUED INTEREST</u>			
Funds designated by Board of Commissioners for plant replacement and expansion, including accrued interest of \$819 in 2017	155,221	-	155,221
Restricted for capital projects	11,525	-	11,525
Total investments and accrued interest	<u>166,746</u>	<u>-</u>	<u>166,746</u>
<u>OTHER ASSETS</u>			
Other assets	4,000	-	4,000
Total other assets	<u>4,000</u>	<u>-</u>	<u>4,000</u>
Total assets	<u>381,161</u>	<u>24,960</u>	<u>406,121</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>139</u>	<u>-</u>	<u>139</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 381,300</u>	<u>\$ 24,960</u>	<u>\$ 406,260</u>

LIABILITIES, DEFERRED INFLOWS AND NET POSITION*(in thousands)*

	<u>TGMC</u>	<u>SRMC</u>	<u>Consolidated</u>
<u>CURRENT LIABILITIES</u>			
Accounts payable and accrued liabilities	\$ 26,613	\$ 266	\$ 26,879
Salaries and employee benefit liabilities	6,722	-	6,722
Accrued interest payable	1,286	-	1,286
Self-insurance reserves	1,654	-	1,654
Other current liabilities	-	22,053	22,053
Current maturities of long-term debt	4,135	-	4,135
Total current liabilities	<u>40,410</u>	<u>22,319</u>	<u>62,729</u>
<u>LONG-TERM LIABILITIES</u>			
Hospital revenue bonds, less current portion (net of premium of \$499 and discount of \$145 in 2017)	63,429	-	63,429
Other accrued liabilities, less current portion	167	-	167
Total long-term debt	<u>63,596</u>	<u>-</u>	<u>63,596</u>
Total liabilities	<u>104,006</u>	<u>22,319</u>	<u>126,325</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows	<u>104,006</u>	<u>22,319</u>	<u>126,325</u>
<u>NET POSITION</u>			
Net investment in capital assets	103,500	3,939	107,439
Restricted for debt service	5,420	-	5,420
Unrestricted	168,374	(1,298)	167,076
Total net position	<u>277,294</u>	<u>2,641</u>	<u>279,935</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 381,300</u>	<u>\$ 24,960</u>	<u>\$ 406,260</u>

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

CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED MARCH 31, 2017

(in thousands)

	<u>TGMC</u>	<u>SRMC</u>	<u>CONSOLIDATED</u>
<u>OPERATING REVENUES</u>			
Net patient service revenue	\$ 176,570	\$ 48,359	\$ 224,929
Other operating revenue, net	15,452	40,754	56,206
Total operating revenues	<u>192,022</u>	<u>89,113</u>	<u>281,135</u>
<u>OPERATING EXPENSES</u>			
Salaries and employee benefits	89,579	-	89,579
Supplies and materials	48,312	19,513	67,825
Purchased services	22,810	65,047	87,857
Professional fees	5,761	930	6,691
Other operating expenses	7,337	3,008	10,345
Depreciation	17,182	615	17,797
Total operating expenses	<u>190,981</u>	<u>89,113</u>	<u>280,094</u>
INCOME FROM OPERATIONS	<u>1,041</u>	<u>-</u>	<u>1,041</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>			
Investment revenue including unrealized losses of \$3,263 in 2017	58	-	58
Interest expense	(2,299)	-	(2,299)
Gain on other investments	638	-	638
Loss on disposal of capital assets	(704)	-	(704)
Other revenue (expenses)	(1,786)	-	(1,786)
Total nonoperating revenues (expenses)	<u>(4,093)</u>	<u>-</u>	<u>(4,093)</u>
CHANGE IN NET POSITION	<u>(3,052)</u>	<u>-</u>	<u>(3,052)</u>
Net position - beginning of year	<u>280,346</u>	<u>2,641</u>	<u>282,987</u>
NET POSITION - END OF YEAR	<u>\$ 277,294</u>	<u>\$ 2,641</u>	<u>\$ 279,935</u>

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

CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2017

(in thousands)

	<u>TGMC</u>	<u>SRMC</u>	<u>CONSOLIDATED</u>
<u>Operating activities</u>			
Cash collected from patients and third-party payors	\$ 190,863	\$ 88,106	\$ 278,969
Cash payments to employees and for employee-related costs	(89,354)	-	(89,354)
Cash payments for operating expenses	<u>(74,835)</u>	<u>(79,912)</u>	<u>(154,747)</u>
Net cash provided by operating activities	<u>26,674</u>	<u>8,194</u>	<u>34,868</u>
<u>Capital and related financing activities</u>			
Purchases of capital assets	(30,002)	(2,055)	(32,057)
Principal and defeasance payments on bonds	(2,085)	-	(2,085)
Proceeds from issuance of bonds	20,000	-	20,000
Bond issuance costs paid	(271)	-	(271)
Interest payments on debt	<u>(2,081)</u>	<u>-</u>	<u>(2,081)</u>
Net cash used in capital and related financing activities	<u>(14,439)</u>	<u>(2,055)</u>	<u>(16,494)</u>
<u>Investing activities</u>			
Interest received on investments	696	-	696
Purchases of investments	(121,659)	-	(121,659)
Proceeds on sales or maturity of investments	<u>107,270</u>	<u>-</u>	<u>107,270</u>
Net cash used in investing activities	<u>(13,693)</u>	<u>-</u>	<u>(13,693)</u>
Net change in cash and cash equivalents	(1,458)	6,139	4,681
Cash and cash equivalents at beginning of year	<u>8,214</u>	<u>6,218</u>	<u>14,432</u>
Cash and cash equivalents at end of year	<u>\$ 6,756</u>	<u>\$ 12,357</u>	<u>\$ 19,113</u>

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

CONSOLIDATING STATEMENT OF CASH FLOWS (continued)
YEAR ENDED MARCH 31, 2017

(in thousands)

	<u>TGMC</u>	<u>SRMC</u>	<u>CONSOLIDATED</u>
<u>Reconciliation of operating income to net cash provided by operating activities</u>			
Income from operations	\$ 1,041	\$ -	\$ 1,041
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Depreciation	17,182	615	17,797
Provision for bad debts	10,389	3,805	14,194
Other nonoperating income	-	214	214
Changes in operating assets and liabilities:			
Patient accounts receivable	(6,651)	(5,123)	(11,774)
Government program receivables	(4,897)	311	(4,586)
Other assets	(3,047)	3,793	746
Accounts payable and accrued liabilities	12,657	4,579	17,236
Net cash provided by operating activities	<u>\$ 26,674</u>	<u>\$ 8,194</u>	<u>\$ 34,868</u>

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

**GROSS REVENUE PAYOR MIX SCHEDULE
YEAR ENDED MARCH 31, 2017**

	<u>TGMC</u>	<u>SRMC</u>
Medicare	56%	32%
Medicaid	14%	46%
Managed Care	26%	9%
Self-pay and Other	4%	13%
Total Gross Patient Revenues	<u>100%</u>	<u>100%</u>

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

SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER
PAYMENTS TO AGENCY HEAD
YEAR ENDED MARCH 31, 2017

AGENCY HEAD - ROBERT L. PICOU, JR.

Salary	\$	-
Benefits-insurance		-
Benefits-retirement		-
Benefits-unused vacation		-
Vehicle provided by government		-
Cell phone		-
Dues		-
Travel		-
Registration fees		395
Conference travel		1,220
Special meals		-
	\$	<u>1,615</u>

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

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

YEAR ENDED MARCH 31, 2017

CHIEF EXECUTIVE OFFICER - PHYLLIS PEOPLES

Salary	\$	629,200
Employer paid payroll taxes		18,515
Benefits-insurance		15,977
Benefits-retirement		13,250
Benefits-paid vacation		60,500
Vehicle provided by government		2,495
Cell phone		948
Dues		994
Travel		22
Registration fees		905
Conference travel		2,066
Special meals		255
	\$	<u>745,127</u>

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

REPORT ON COMPLIANCE AND INTERNAL CONTROL

MARCH 31, 2017



Postlethwaite & Netterville

A Professional Accounting Corporation

www.pncpa.com



Postlethwaite & Netterville

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A Professional Accounting Corporation

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Hospital Service District No. 1 of Terrebonne Parish, State of Louisiana (the District), a component unit of the Terrebonne Parish Consolidated Government, as of and for the year ended March 31, 2017, and the related notes to the consolidated financial statements, which collectively comprise the District's basic consolidated financial statements as listed in the table of contents, and have issued our report thereon dated September 28, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item #2017-001.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Postlethwaite & Netterville

Baton Rouge, Louisiana
September 28, 2017

(except for the Schedule of Findings and Responses
as to which the date is November 13, 2017)

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED MARCH 31, 2017

FINDINGS—Financial Statement Audit

2017-001 Compliance with Louisiana Audit Law

- Criteria: The Louisiana audit law (Louisiana Revised Statute 24:513A. (3)) requires virtually every local auditee report that is submitted to the Louisiana Legislative Auditor (LLA) to include a schedule of compensation, benefits, and other payments to agency head, political subdivision head, or chief executive officer to comply with the Supplemental Reporting of Compensation, Reimbursements, and Benefits for Agency Heads and Chief Executive Officers of Local Auditees under R.S. 24:513(A)(3).
- Condition: Under the advice of legal counsel and at the direction of the Board, the District has determined that the agency head of the District is the Chair of the board. The Chair’s compensation as agency head is presented as supplemental information in the consolidated financial statements.
- Cause: R.S. 24:513(A)(3) does not define “agency head” The Code of Governmental Ethics pursuant to R.S. 42:1102 defines “agency head” as the chief executive or administrative officer of an agency or any member of a board or commission who exercises supervision over the agency. However, the Louisiana Legislative Auditor’s office has determined that a hospital service district that is running its own hospital is required to report the Chief Executive Officer’s salary.
- Effect: Based on guidance provided by the Louisiana Legislative Auditor relative to this revised statute, the District may be in violation of the state statute by presenting the Chair of the board’s compensation as agency head of the District. Subsequent to the original submission dated September 28, 2017, the District has added a supplemental schedule to disclose the compensation of the Chief Executive Officer of Terrebonne General Medical Center.
- Recommendation: The District should resolve with legal counsel and the Louisiana Legislative Auditor as necessary to report its agency head’s salary in accordance with Louisiana audit law.

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED MARCH 31, 2017

2017-001 Compliance with Louisiana Audit Law (continued)

View of Responsible Official and Planned Corrective Action

It is the position of Hospital Service District No. 1 of the Parish of Terrebonne, based upon clear legal counsel opinion, that the Chairman of the Board of Commissioners is the "agency head" and "political subdivision head" of the service district, the "local auditee" for purposes of filing a supplemental report with its financial statement to the Louisiana Legislative Auditor. This is supported by the bylaws of the organization which have been in effect since the inception of the organization. In addition this position has been accepted in our supplemental information reporting since this requirement was put into place without question. Our presentation of this information is not a change from past reporting.

Although it is still the position Hospital Service District No. 1 of the Parish of Terrebonne, that the Chairman of the Board of Commissioners is the "agency head" and "political subdivision head" of the service district, we have conferred with both legal counsel and the Louisiana Legislative Auditor and have submitted the CEO Compensation as supplemental to the Agency Head compensation.

HOSPITAL SERVICE DISTRICT NO. 1 OF TERREBONNE PARISH

SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED MARCH 31, 2017

FINDINGS—Financial Statement Audit

2016-001 Information Technology: Application Controls

- Criteria: Organizations should maintain policies that require adequate testing of changes to charge master data, including automated billing queries, to ensure the accuracy and integrity of changes impacting patient charges.
- Condition: A SQL query used to automatically generate charges for a specific type of lab test had an error that also generated a charge for a lab service not performed. The District's controls did not identify this error. The error dates back to August 2012.
- Cause: The District's internal control policies and procedures were not precise enough to monitor changes in the charge master data in order to identify this type of error.
- Effect: The District's charges to patients were overstated by an immaterial amount during fiscal year 2016. Charges were also overstated by immaterial amounts dating back to August 2012.
- Recommendation: It is recommended that this condition be corrected as it relates to this specific lab charge. Additionally, the District should implement policies that put controls into place, allowing for review and testing of billing queries and other changes impacting data at a level that is precise enough to identify errors of this nature. It is recommended that the appropriate individuals be identified to perform such validation tests of billing queries.

Current Status

This finding is considered to be resolved.