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

Independent Auditor's Reports and Financial Statements

September 30, 2018 and 2017

BKD
CPAs & Advisors

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)
September 30, 2018 and 2017

Contents

BKD
CPAs & Advisors

14241 Dallas Parkway, Suite 1100 | Dallas, TX 75254-2961
972.702.8262 | Fax 972.702.0673 | bkd.com

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Hospital Service District No. 3, a component unit of Lafourche Parish, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (Medical Center), as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of September 30, 2018 and 2017, 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.

Emphasis of Matters

As discussed in *Note 1* to the financial statements, in 2018, the Medical Center adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

As discussed in *Note 2* to the financial statements, the 2017 statement of cash flows has been restated to correct a misstatement. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and other postemployment benefits information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Medical Center's basic financial statements. The Schedule of Compensation, Reimbursements, Benefits and Other Payments to the Chief Executive Officer as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The Schedule of Compensation, Reimbursements, Benefits and Other Payments to the Chief Executive Officer is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Compensation, Reimbursements, Benefits and Other Payments to the Chief Executive Officer is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2019, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
March 20, 2019

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)
Management's Discussion and Analysis
Years Ended September 30, 2018 and 2017

Introduction

This management's discussion and analysis of the financial performance of Hospital Service District No. 3, a Component Unit of Lafourche Parish, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (Medical Center) provides an overview of the Medical Center's financial activities for the years ended September 30, 2018 and 2017. It should be read in conjunction with the accompanying financial statements of the Medical Center.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

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

2018 Financial Highlights

- Cash and investments increased by approximately $7,042,000 or 4.4% in 2018 compared to 2017
- The Medical Center's net position increased approximately $4,369,000 or 1.3% in 2018 compared to 2017
- The Medical Center reported operating income in 2018 of approximately $5,652,000, which represents a decrease of $1,554,000 or 21.6% from the $7,206,000 operating income reported in 2017.
- Net nonoperating revenues decreased by approximately $975,000 or 67.8% in 2018 compared to 2017
- In 2018, the Medical Center adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The adoption of GASB 75 resulted in a restatement of beginning net position at October 1, 2017 of approximately $1,747,000. Prior year comparative information has not been restated for the adoption of GASB 75.

The Medical Center's Net Position

The Medical Center's net position is the difference between its assets, liabilities and deferred inflows of resources reported in the balance sheet. The Medical Center's net position increased by approximately $4,369,000 or 1.3% in 2018 over 2017, as shown in Table 1.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)
Management's Discussion and Analysis (Continued)
Years Ended September 30, 2018 and 2017

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

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

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

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

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

Table 2: Operating Results and Changes in Net Position

	2018	2017
	(In Thousands)	
Operating Revenues		
Net patient service revenue	$ 177,726	$ 173,517
Other	6,502	6,094
Total operating revenues	184,228	179,611
Operating Expenses		
Salaries, wages and employee benefits	83,405	81,672
Supplies, professional fees and purchased services	79,727	76,021
Depreciation and amortization	15,444	14,712
Total operating expenses	178,576	172,405
Operating Income	5,652	7,206
Nonoperating Revenues, Net	464	1,439
Increase in Net Position	6,116	8,645
Net Position, as Previously Reported	348,287	339,642
Change in Accounting Principle	(1,747)	-
Net Position, Beginning of Year, as Restated	346,540	339,642
Net Position, End of Year	$ 352,656	$ 348,287

Operating Income

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

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

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

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

	2018	2017	Dollar Change	Percent
	(In Thousands)			
Gross patient service revenue	$ 759,601	$ 718,094	$ 41,507	5.8%
Contractual and other adjustments				
Medicare	309,921	288,591	21,330	7.4%
Managed Care	135,317	128,962	6,355	4.9%
Medicaid	99,920	93,073	6,847	7.4%
Other	26,955	24,422	2,533	10.4%
Total contractual adjustments	572,113	535,048	37,065	6.9%
	187,488	183,046	4,442	2.4%
Provision for uncollectible accounts	9,762	9,529	233	2.4%
Net patient service revenue	$ 177,726	$ 173,517	$ 4,209	2.4%

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

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

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

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

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

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

Earnings before Interest, Depreciation and Amortization

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

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

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

Nonoperating Revenues and Expenses

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

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

The Medical Center's Cash Flows

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

Capital Assets

At September 30, 2018 and 2017, the Medical Center had approximately $179,704,000 and $180,986,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 7* to the financial statements. In 2018 and 2017, the Medical Center purchased new property and equipment costing approximately $14,272,000 and $10,362,000, respectively.

2017 Financial Highlights

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

The Medical Center's Net Position

The Medical Center's net position is the difference between its assets and liabilities reported in the balance sheet. The Medical Center's net position increased by approximately $8,645,000 or 2.5% in 2017 over 2016, as shown in Table 3.

Table 3: Assets, Liabilities and Net Position

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

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

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

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

Table 4: Operating Results and Changes in Net Position

	2017	2016
	(In Thousands)	
Operating Revenues		
Net patient service revenue	$ 173,517	$ 162,197
Other	6,094	3,808
Total operating revenues	179,611	166,005
Operating Expenses		
Salaries, wages and employee benefits	81,672	80,757
Supplies, professional fees and purchased services	76,021	69,086
Depreciation and amortization	14,712	10,112
Total operating expenses	172,405	159,955
Operating Income	7,206	6,050
Nonoperating Revenues	1,439	1,166
Increase in Net Position	$ 8,645	$ 7,216

Operating Income

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

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

During fiscal year 2017, the Medical Center derived 96.6% of its total operating revenue from net patient service revenue. Below is a breakout of gross patient service revenues and contractual and other adjustments by payer for the years ended September 30, 2017 and 2016:

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

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

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

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

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

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

Earnings before Interest, Depreciation and Amortization

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

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

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

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, contributions from joint venture and income from joint ventures. Investment income consists of interest earnings on funds designated by the board of commissioners. Other gains/losses that are not directly related to the provision of healthcare services are also classified as nonoperating income. Nonoperating income increased approximately $272,000 or 23.3% from the prior year due to increases in investment income, contributions and a reduction in income from equity method joint venture.

Investment income increased approximately $177,000 or 47.3% in 2017 as compared to 2016 due to the Medical Center investing additional funds in fixed income securities. TIC JV, LLC, a blended component unit of the Medical Center, received contributions of $600,000 in 2017 from physician owners in exchange for 15% of ownership in TIC JV, LLC. Income from equity method joint venture decreased $490,000 or 63.6% from 2016 to 2017.

The Medical Center's Cash Flows

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

Capital Assets

At September 30, 2017 and 2016, the Medical Center had approximately $180,986,000 and $185,363,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 7* to the financial statements. In 2017 and 2016, the Medical Center purchased new property and equipment costing approximately $10,362,000 and $32,670,000, respectively.

Economic Factors and Next Year's Budget

While the annual budget of the Medical Center is not presented with the financial statements, the Medical Center's board and management considered many factors when setting the fiscal year 2019 budget. Although the financial outlook of the Medical Center is excellent, of primary importance in setting the 2019 budget is the state of the economy and the healthcare environment, which takes into account market forces and environmental factors such as:

- Medicare and Medicaid reimbursement changes
- Increased number of uninsured and working poor
- Ongoing competition for services
- Workforce issues primarily in nursing and other clinically skilled positions
- Cost of supplies
- Cost of pharmaceuticals
- Ability to continue recruiting medical staff physicians to maintain the high level of services offered to our service area
- Continued growth of service levels in the ancillary departments

Contacting the Medical Center's Financial Management

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

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)
Balance Sheets
September 30, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash	$ 16,750,956	$ 17,501,300
Short-term investments	125,000	125,000
Patient accounts receivable, net of allowance; 2018 – $9,885,000; 2017 – $11,122,000	20,173,961	19,091,905
Other receivables	208,479	892,667
Supplies	2,860,492	2,691,762
Prepaid expenses and other	1,862,717	1,722,374
Total current assets	41,981,605	42,025,008
Noncurrent Cash and Investments		
Board designated for capital expenditures	149,566,356	141,774,038
Capital Assets, Net	179,703,903	180,986,346
Other Assets	2,932,260	1,832,943
Total assets	$ 374,184,124	$ 366,618,335

Liabilities, Deferred Inflows of Resources and Net Position

	2018	2017
Current Liabilities		
Accounts payable and accrued expenses	$ 16,528,378	$ 16,214,562
Estimated amounts due to third-party payers	1,462,490	679,314
Total current liabilities	17,990,868	16,893,876
Other Postemployment Benefits Liability	3,151,400	1,437,750
Total liabilities	21,142,268	18,331,626
Deferred Inflows of Resources	385,877	-
Net Position		
Net investment in capital assets	177,611,021	180,182,537
Unrestricted	175,044,958	168,104,172
Total net position	352,655,979	348,286,709
Total liabilities, deferred inflows of resources and net position	$ 374,184,124	$ 366,618,335

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2018 and 2017

	2018	2017
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2018 – $9,762,000; 2017 – $9,529,000	$ 177,725,696	$ 173,517,187
Other	6,503,221	6,094,949
Total operating revenues	184,228,917	179,612,136
Operating Expenses		
Salaries and wages	69,629,598	67,683,958
Employee benefits	13,775,861	13,988,069
Professional fees and services	7,918,709	8,313,814
Supplies and other	44,927,372	42,661,055
Purchased services	15,897,695	14,342,292
Other	10,983,471	10,704,254
Depreciation and amortization	15,443,822	14,712,152
Total operating expenses	178,576,528	172,405,594
Operating Income	5,652,389	7,206,542
Nonoperating Revenues (Expenses)		
Investment income	73,775	551,902
Contributions	-	600,000
TIC JV Distributions	(62,349)	(25,841)
Noncapital grants and contributions received	55,551	60,751
Noncapital grants and contributions expensed	(22,783)	(3,872)
Loss from disposal of capital assets	(5,754)	(25,516)
Income from joint venture	425,247	280,945
Total nonoperating revenues	463,687	1,438,369
Increase in Net Position	6,116,076	8,644,911
Net Position, Beginning of Year, as Previously Reported	348,286,709	339,641,798
Change in Accounting Principle	(1,746,806)	-
Net Position, Beginning of Year, as Restated	346,539,903	339,641,798
Net Position, End of Year	$ 352,655,979	$ 348,286,709

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)
Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017 (Restated - *Note 2*)
Operating Activities		
Receipts from and on behalf of patients and third-party payors	$ 177,363,517	$ 174,445,246
Payments to suppliers and contractors	(82,499,303)	(76,728,691)
Payments to employees	(82,710,913)	(82,080,921)
Other receipts, net	7,187,409	5,309,793
Net cash provided by operating activities	19,340,710	20,945,427
Noncapital and Financing Activities		
Grants and contributions received	55,551	660,751
Grants and contributions expended	(22,783)	(3,872)
Net cash provided by noncapital and financing activities	32,768	656,879
Capital and Related Financing Activities		
Proceeds from the sale of capital assets	16,870	-
Purchase of capital assets	(12,894,930)	(13,104,648)
Net cash used in capital and related financing activities	(12,878,060)	(13,104,648)
Investing Activities		
Interest income	73,775	551,902
Distributions received from joint venture	472,781	550,988
Purchase of investments	(43,158,621)	(160,365,536)
Proceeds from disposition of investments	45,078,256	118,368,422
Net cash provided by (used in) investing activities	2,466,191	(40,894,224)
Increase (Decrease) in Cash	8,961,609	(32,396,566)
Cash, Beginning of Year	67,278,224	99,674,790
Cash, End of Year	$ 76,239,833	$ 67,278,224
Reconciliation of Cash to the Balance Sheets		
Cash	$ 16,750,956	$ 17,501,300
Cash in noncurrent cash and investments	59,488,877	49,776,924
Total cash	$ 76,239,833	$ 67,278,224

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)
Statements of Cash Flows (Continued)
Years Ended September 30, 2018 and 2017

	2018	2017 (Restated - *Note 2*)
Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities		
Operating income	$ 5,652,389	$ 7,206,542
Depreciation and amortization	15,443,822	14,712,152
Provision for uncollectible accounts	9,762,318	9,529,001
Changes in operating assets and liabilities		
Patient accounts receivable, net	(10,844,374)	(9,671,173)
Estimated amounts due from and to third-party payers	783,176	604,152
Accounts payable and accrued expenses	(1,037,606)	298,500
Other postemployment benefits (OPEB) liability	(33,156)	-
OPEB deferred inflows of resources	385,877	-
Other assets and liabilities	(771,736)	(1,733,747)
Net cash provided by operating activities	$ 19,340,710	$ 20,945,427
Supplemental Cash Flows Information		
Capital asset additions in accounts payable	$ 2,092,882	$ 803,809

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

Nature of Operations and Reporting Entity

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

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

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

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash

The Medical Center excludes amounts restricted as to use by board designation from cash. Noncurrent cash includes cash balances at September 30, 2018 and 2017 that were restricted by board designation. The Medical Center treats restricted and unrestricted cash equivalents as investments.

Risk Management

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

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

Investments and Investment Income

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

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

Investment in Joint Venture

TRSS holds a 30% interest in Thibodaux Surgery Center, LLC, an ambulatory surgery center which provides services to the community. This investment is carried using the equity method of accounting. Using this method of accounting, TRSS's share of net income is recognized as non-operating revenue in the Medical Center's statement of revenues, expenses and changes in net position and added to the investment account. The investment is also reduced for any dividends received. The investment in the joint venture is included in other assets on the balance sheets.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

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

Compensated Absences

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

Postemployment Benefits Other Than Pensions

The Medical Center has a single-employer defined benefit other postemployment benefit plan (OPEB). For purposes of measuring the total OPEB liability, deferred outflows and deferred inflows of resources related to OPEB, and OPEB expense have been determined on the same basis as they are reported by the OPEB. For this purpose, the Medical Center recognizes benefit payments when due and payable in accordance with the benefit terms.

Deferred Outflows/Inflows of Resources

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

Net Position

Net position of the Medical Center is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and amortization and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. As of September 30, 2018 and 2017 the Medical Center had no outstanding long-term debt but did have accounts payable related to capital additions. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

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

Charity Care

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

Income Taxes

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

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation. The reclassifications had no effect on the changes in financial position.

Change in Accounting Principle

Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), was implemented during fiscal year 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosures and required supplementary information. In addition, GASB Statement No. 75 requires a state or local government employer to use the entry age normal actuarial cost method, and requires deferred outflows of resources and deferred inflows of resources which arise from other types of events related to OPEB to be recognized. Restatement of the 2017 financial statements is not practical because prior year information calculated under the provisions of GASB 75 is not available. Accordingly, the Medical Center has reported the cumulative effect of applying GASB 75 as a restatement of net position as of October 1, 2017. This restatement decreased previously reported net position by $1,746,806.

Note 2: Restatement of Prior Years' Financial Statements

The 2017 statement of cash flows has been restated for the exclusion of cash in noncurrent cash and investments from beginning and ending cash. The inclusion of cash in noncurrent cash and investments in cash balances in the statement of cash flows resulted in an increase of net cash used in investing activities in 2017 and a decrease of total cash flows by $38,989,585. This restatement did not change previously reported 2017 change in net position.

The following financial statement line items for the year ended September 30, 2018 were affected by the inclusion of cash in noncurrent cash and investments in the statement of cash flows.

	As Restated	As Previously Reported	Effect of Change
Statement of Cash Flows			
Net cash used in investing activities	$ (40,894,224)	$ (1,904,639)	$ (38,989,585)
Increase (Decrease) in Cash	(32,396,566)	6,593,019	(38,989,585)
Cash, Beginning of Year	99,674,790	10,908,281	88,766,509
Cash, End of Year	67,278,224	17,501,300	49,776,924

Note 3: Net Patient Service Revenue

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

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare administrative contractor. The Medical Center's cost reports have been audited by the Medicare administrative contractor through September 30, 2014.
- **Medicaid** – Inpatient services rendered to Medicaid program beneficiaries are paid based on prospectively determined rates. Outpatient services are paid under either a cost reimbursement methodology or using defined allowable charges. The Medical Center is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid administrative contractor. The Medical Center's cost reports have been audited by the Medicaid administrative contractor through September 30, 2012.

Approximately 54% and 53% respectively, of net patient service revenue is from participation in the Medicare and state sponsored Medicaid programs for the years ended September 30, 2018 and 2017. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 4: Louisiana Medicaid Supplemental Payment Programs

The Medical Center receives supplemental Medicaid payments for inpatient and outpatient services in accordance with specific state statutes subject to federal regulations and approval. Under one of the agreements the Medical Center received supplemental payments for services provided by physicians in recognition for providing services to Medicaid patients. During the years ended September 30, 2018 and 2017, total revenues, net of expenses, recognized by the Medical Center related to this agreement was approximately $1,124,000 and $1,572,000, respectively. These receipts and payments are recorded as net patient service revenue in the statements of revenues, expenses and changes in net position. Under a separate agreement the Medical Center entered into a cooperative endeavor agreement with other health care providers for the purpose of ensuring adequate healthcare services are available for underserved, non-rural populations. During the years ended September 30, 2018 and 2017, total revenues, net of expenses, recognized by the Medical Center related to this agreement was approximately $2,794,000 and $3,815,000, respectively. These receipts and payments are recorded as net patient service revenue in the statements of revenues, expenses and changes in net position.

Note 5: Deposits and Investments

Deposits

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

State law requires collateralization of all deposits with federal depository insurance or other qualified investments in the state of Louisiana. At September 30, 2018, with the exception of approximately $3,470,000 held by TIC, a blended component unit of the Medical Center, the Medical Center's deposits were either insured or collateralized. At September 30, 2017, the Medical Center's deposits were either insured or collateralized in accordance with state law.

Investments

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

At September 30, 2018 and 2017, the Medical Center had the following investments and maturities:

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

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

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

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Medical Center's policy, which conforms to Louisiana state law, does not specifically limit investment in securities based on ratings issued by nationally recognized statistical rating organizations (NRSROs), but the policy does designate authorized investments by type. The Medical Center's debt securities of the U.S agencies are rated AA+ by Standards and Poor's rating agency. The Medical Center's investments in corporate bonds were rated A to AA+ by Standard & Poor's rating agency. The Medical Center's investments in municipal bonds were rated AA- by Standard & Poor's rating agency. The Medical Center's investments in money market mutual funds were rated AAAm by Standard & Poor's and Aaa by Moody's Investors

Service. The Medical Center also invests in certificates of deposits, which are classified as deposits for financial reporting purposes. These certificates are fully collateralized by the various financial institutions.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Medical Center will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk – The Medical Center's investment policy, in accordance with state statute, restricts investments in U.S. agencies to 50% of total investments. Investments in open-end and closed-end management type investment companies and investment trusts are limited to 20% of total investments. At September 30, 2018 and 2017, management believes the Medical Center complies with this policy.

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

	2018	2017
Federal Home Loan Bank	17.5%	16.1%
Federal Farm Credit Bank	3.2%	5.5%
Federal National Mortgage Association	10.8%	10.1%
Federal Home Loan Mortgage Corporation	13.2%	12.7%
Government National Mortgage Association	9.2%	8.0%

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

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

Summary of Carrying Values

The Medical Center holds the following deposits and investments:

	2018	2017
Cash deposits, operating funds	$ 16,750,956	$ 17,501,300
Cash deposits, board designated funds	55,831,627	46,129,157
Certificates of deposits, short-term investments	125,000	125,000
Certificates of deposits, board designated funds	2,000,000	2,000,000
Money market deposits, board designated funds	3,657,250	3,647,767
Money market mutual funds, board designated funds	359,192	395,959
Investments, board designated funds	87,718,287	89,601,155
	$ 166,442,312	$ 159,400,338

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

	2018	2017
Cash	$ 16,750,956	$ 17,501,300
Short-term investments	125,000	125,000
Board designated for capital expenditures	149,566,356	141,774,038
	$ 166,442,312	$ 159,400,338

Note 6: Patient Accounts Receivable

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

	2018	2017
Medicare	$ 1,825,877	$ 8,436,627
Medicaid	7,828,306	1,511,964
Other third-party payers	9,942,818	9,525,139
Patients	10,461,460	10,739,841
	30,058,461	30,213,571
Less allowance for uncollectible accounts	9,884,500	11,121,666
	$ 20,173,961	$ 19,091,905

Note 7: Capital Assets

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

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

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

Note 8: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at September 30, 2018 and 2017, consisted of:

	2018	2017
Payable to suppliers and contractors	$ 6,464,582	$ 6,429,292
Payable to employees (including payroll taxes and benefits)	6,171,902	5,905,768
Estimated self insurance costs (*Note 8*)	2,602,081	2,526,390
Patient credit balances	1,289,813	1,353,112
	$ 16,528,378	$ 16,214,562

Note 9: Risk Management

Medical Malpractice and General Liability Risks

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

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

Activity in the Medical Center's accrued medical malpractice claims liability during 2018 and 2017 is summarized as follows:

	2018	2017
Balance, beginning of year	$ 902,632	$ 772,632
Current year claims incurred and changes in estimates for claims incurred in prior years	259,983	707,075
Claims and expenses paid	(229,983)	(577,075)
Balance, end of year	$ 932,632	$ 902,632

The Medical Center is also insured on a claims-made basis through a commercial insurance carrier for general liability losses that exceed $100,000 up to $9,500,000 per occurrence, with a total annual limit of $9,500,000, and with a self-insurance retention of $100,000 per occurrence with no maximum amount per year in aggregate. As of September 30, 2018 and 2017, the Medical Center accrued $375,866 and $150,866, respectively, as reserves for self-insurance retentions on outstanding general liability claims.

Employee Health and Workers' Compensation Claims

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

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

Activity in the Medical Center's accrued employee health and workers' compensation claims liability during 2018 and 2017, is summarized as follows:

	2018	2017
Balance, beginning of year	$ 1,472,892	$ 1,861,510
Current year claims incurred and changes in estimates for claims incurred in prior years	6,005,376	6,837,865
Claims and expenses paid	(6,184,685)	(7,226,483)
Balance, end of year	$ 1,293,583	$ 1,472,892

Note 10: Operating Leases

Operating leases for medical and office equipment expire in various years through 2023. Rental payments include minimum rentals, plus contingent rentals based on revenues. Rental expense for the years ended September 30, 2018 and 2017 totaled approximately $1,188,000 and $1,092,000, respectively.

Future minimum lease payments at September 30, 2018, were:

2019	$ 603,977
2020	560,960
2021	255,117
2022	120,752
2023	16,078
	$ 1,556,884

The Medical Center leases office space in a medical office building and clinical facilities, generally to members of its medical staff, under operating leases with terms ranging up to five years. Rental income totaled approximately $1,410,000 and $1,416,000, respectively, for the years ended September 30, 2018 and 2017.

Minimum future rentals receivable under noncancellable operating leases at September 30, 2018, were:

2019	$ 679,807
2020	506,856
2021	425,399
2022	232,693
	$ 1,844,755

Note 11: Other Postemployment Benefits (OPEB) Health Care Plan

Plan Description and Benefits Provided

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

At September 30, 2018, the following employees were covered by the benefit terms:

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

Total OPEB Liability

The Medical Center's total OPEB liability of $3,151,400 was measured as of September 30, 2018, and was determined by an actuarial valuation as of September 30, 2018.

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

Salary increases	3.5%
Discount rate	4.24% (3.63% in prior year)
Health care cost trend rates	7.0% for 2018, decreasing 0.5% per year to an ultimate rate of 4.5% for 2023 and later years

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

Mortality rates are from the SOA RP-2014 generational table scaled using MP-2018 and applied on a gender-specific basis.

No formal actuarial experience studies have been performed.

Changes in the Total OPEB Liability

Total OPEB liability, October 1, 2017	$	3,184,556
Changes for the year:		
Service cost		261,925
Interest		124,908
Changes of assumptions or other inputs (discount rate change)		(409,151)
Benefit payments		(10,838)
Net changes		(33,156)
Total OPEB liability, September 30, 2018	$	3,151,400

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

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

	1% Decrease (3.24%)	Current Discount Rate (4.24%)	1% Increase (5.24%)
Total OPEB Liability	$ 3,860,260	$ 3,151,400	$ 2,608,003

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

	1% Decrease	Healthcare Cost Trend Rates (7.0% decreasing to 4.50%)	1% Increase
Total OPEB Liability	$ 2,482,420	$ 3,151,400	$ 4,072,699

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the Medical Center recognized OPEB expense of $363,586. At September 30, 2018, the Medical Center reported deferred inflows of resources related to the OPEB from changes of assumptions and other inputs of $(385,877). There were no deferred outflows of resources related to the OPEB for the year ended September 30, 2018.

Amounts reported as deferred inflows of resources at September 30, 2018, related to OPEB will be recognized in OPEB expense as follows:

2019	$ (23,247)
2020	(23,247)
2021	(23,247)
2022	(23,247)
2023	(23,247)
Thereafter	(269,642)
	$ (385,877)

OPEB – GASB No. 45

Prior to adopting GASB No. 75 in 2018, the Medical Center's annual OPEB cost was calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

As of October 1, 2015, the most recent actuarial valuation date under GASB No. 45, the OPEB was not funded. The actuarial accrued liability for benefits was $2,028,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $2,028,000 and a net OPEB liability (NOL) of $1,437,750.

Note 12: Retirement Plans

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

The other two defined contributions plans are organized under IRC Section 401(a), one of which is an employee plan, and the other of which is an additional physician/executive plan. All part time and full time employees and physicians are eligible and are enrolled into the employee plan after one year of employment with the Medical Center. The Medical Center, at its option, may make contributions to the employee plan based on a discretionary percentage of eligible employees' base compensation, as defined. As of September 30, 2018 and 2017, the Medical Center's discretionary contribution percentages to the employee plan was calculated as 4% of eligible compensation for both years.

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

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

Retirement contributions made by the Medical Center to both 401(a) plans for the years ended September 30, 2018 and 2017 totaled approximately $2,466,000 and $2,300,000, respectively.

Note 13: Investment in Joint Venture

The Medical Center originally purchased a 50% ownership interest in a joint venture, Thibodaux Surgery Center, LLC, that provides surgical and endoscopy services. In 2014, the Medical Center sold 40% of their ownership, reducing the ownership as of September 30, 2018 and 2017 to 30%. Financial position and results of operations of the joint venture are summarized below:

	2018	2017
Current assets	$ 1,410,511	$ 1,707,685
Property and equipment, net	327,565	279,121
Total assets	$ 1,738,076	$ 1,986,806
Current liabilities	$ 371,733	$ 412,633
Long-term liabilities	151,263	212,123
Total liabilities	522,996	624,756
Members' capital	1,215,080	1,362,050
Total liabilities and members' capital	$ 1,738,076	$ 1,986,806
Net patient service revenue	$ 7,721,683	$ 7,305,586
Operating expenses	(5,739,258)	(5,749,266)
Non-operating income	(25,495)	57,810
Net income	$ 1,956,930	$ 1,614,130

The carrying amount of the Medical Center's investment in the joint venture was $364,524 and $537,798 at September 30, 2018 and 2017, respectively.

Income from the Medical Center's investment in the joint venture was $425,247 and $280,945 for the years ended September 30, 2018 and 2017, respectively.

Additionally, the Medical Center leases office space to Thibodaux Surgery Center, LLC under an operating lease with an initial expiration date of December 31, 2018. The lease has renewal options upon expiration and was extended through December 31, 2019 subsequent to September 30, 2018. Amounts received under the lease agreements for the years ended September 30, 2018 and 2017, totaled approximately $459,000 for both years.

Note 14: Litigation

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

Note 15: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30:

		Fair Value Measurements Using		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018				
Investments by fair value level				
U.S. Treasury obligations	$ 36,230,314	$ 36,230,314	$ -	$ -
U.S. agency obligations	47,526,388	-	47,526,388	-
Corporate bonds	3,821,994	-	3,821,994	-
Money market mutual funds	359,192	359,192	-	-
Municipal bonds	139,591	-	139,591	-
Total investments by fair value level	$ 88,077,479	$ 36,589,506	$ 51,487,973	$ -
Other assets by fair value level				
U.S. agency obligations	$ 119,320	$ -	$ 119,320	$ -
September 30, 2017				
Investments by fair value level				
U.S. Treasury obligations	$ 36,970,640	$ 36,970,640	$ -	$ -
U.S. agency obligations	47,143,442	2,626,496	44,516,946	-
Corporate bonds	5,487,073	1,884,738	3,602,335	-
Money market mutual funds	395,959	395,959	-	-
Total investments by fair value level	$ 89,997,114	$ 41,877,833	$ 48,119,281	$ -
Other assets by fair value level				
U.S. agency obligations	$ 665,193	$ -	$ 665,193	$ -

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Medical Center did not have any Level 3 investments at September 30, 2018 and 2017.

Required Supplementary Information

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)
Schedule of Changes in the Medical Center's Total OPEB Liability and Related Ratios
Year Ended September 30, 2018

		2018
Total OPEB Liability		
Service cost	$	261,925
Interest		124,908
Changes of assumptions or other inputs		(409,151)
Benefit payments		(10,838)
Net change in total OPEB liability		(33,156)
Total OPEB liability—beginning		3,184,556
Total OPEB liability—ending	$	3,151,400
Covered-employee payroll	$	18,834,176
District's total OPEB liability as a percentage of covered-employee payroll		16.73%

Notes to Schedule:

Changes of assumptions. Change in discount rate.

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Medical Center will present information for those years for which information is available. All amounts are in thousands, unless otherwise indicated.

Supplementary Information

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)
Schedule of Compensation, Reimbursements, Benefits and Other Payments to Chief Executive Officer
Year Ended September 30, 2018

Chief Executive Officer - Greg Stock

Purpose		Amount
Salary	$	500,200
Deferred compensation (one-time payment)		725,309
Benefits-insurance		10,971
Benefits-retirement		15,923
Benefits-Other		-
Car allowance		-
Vehicle provided by government		13,750
Per diem		-
Reimbursements		740
Travel		-
Registration fees		395
Conference travel (including continuing education)		13,849
Continuing professional education fees		-
Housing		-
Unvouchered expenses		-
Special meals (physician recruitment)		353

BKD
CPAs & Advisors

14241 Dallas Parkway, Suite 1100 | Dallas, TX 75254-2961
972.702.8262 | Fax 972.702.0673 | bkd.com

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Hospital Service District No. 3, a Component Unit of Lafourche Parish, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (Medical Center), which comprise the statement of financial position as of September 30, 2018 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated March 20, 2019, which contained emphasis of matters paragraph for a change in accounting principle and restatement of the 2017 statement of cash flows.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-01 that we consider to be a significant deficiency.

Compliance and Other Matters

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

Management's Response to Findings

Management's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Dallas, Texas
March 20, 2019

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

Reference Number	Finding
2018-01	**Finding:** Statement of Cash Flows Restatement

Criteria or Specific Requirement: Cash associated with the board designated cash for capital acquisitions included in noncurrent cash and investments should be reported as cash in the Statement of Cash Flows.

Condition: For the year ended September 30, 2017, management outsourced the drafting of the financial statements to the independent auditors. In the audit of the September 30, 2018 financial statements it was determined that there was an error in the 2017 Statement of Cash Flows which understated cash used in investing activities and understated the decrease in total cash flows by $38,989,585, due to the exclusion of the board designated cash included in noncurrent cash and investments as cash in the Statement of Cash Flows.

Effect: While this error had no effect on the previously issued 2017 financial position of the Medical Center or changes in its financial position, the difference was material to the 2017 Statement of Cash Flows resulting in the restatement as discussed in *Note 2* of the financial statements.

Cause: The Medical Center began investing significant amounts of cash included in noncurrent cash and investments in investment portfolios in 2017. These activities were excluded from the cash flows and management did not challenge the exclusion.

Recommendation: As the Medical Center continues to embark on various investing activities with amounts designated by the board for capital acquisitions and take on more responsibility for financial statement preparation, we recommend that cash flow classifications and transactions included in the Statement of Cash Flows be carefully analyzed.

Views of Responsible Officials: Agree. See separate report for planned corrective actions.

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

Reference Number	Finding

No matters are reportable

BKD
CPAs & Advisors
14241 Dallas Parkway, Suite 1100 | Dallas, TX 75254-2961
972.702.8262 | Fax 972.702.0673 | bkd.com

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

In planning and performing our audit of the financial statements of Hospital Service District No. 3, A Component Unit of Lafourche Parish, State of Louisiana (d/b/a Thibodaux Regional Medical Center (the Medical Center) as of and for the year ended September 30, 2018, 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, we considered the Medical Center's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Medical Center's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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.

We observed the following matters that we consider to be a significant deficiency.

Significant Deficiency

Refer to the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

This communication is intended solely for the information and use of management, the Board of Commissioners, others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Dallas, Texas
March 20, 2019

THIBODAUX REGIONAL®
MEDICAL CENTER

March 20, 2019

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

Re: Hospital Service District No. 3, of Lafourche Parish, d/b/a Thibodaux Regional Medical Center September 30, 2018 Financial Statement Audit Comments Action Plan

To Whom It May Concern:

Please find our below corrective action plan for the Management Letter significant deficiency that was a component of our September 30, 2018 financial statement audit

Statement of Cash Flows Restatement

The Medical Center has a dedicated team of accountants and individuals, internally, who are experienced in financial reporting; however, from time-to-time it has been found to be more efficient to outsource certain aspects of financial reporting to the independent auditors. For many years, the Medical Center has engaged the auditors to assist in preparation of the audited financial statements - including the details of the statement of cash flows.

As investment activity has increased in the recent past, the Medical Center has implemented a process where management will review all accounts and balances included in board designated noncurrent cash and investments, identify all cash balances within those amounts and ensure amounts are included in the statement of cash flows.

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

Sincerely,

Steve Gaubert

Steve Gaubert

Chief Financial Officer

602 North Acadia Road • Thibodaux, LA • 70301 • Telephone: 985-447-5500 • Fax: 985-449-4600
P.O. Box 1118 • Thibodaux, LA • 70302-1118
www.thibodaux.com

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

Independent Accountant's Report on

Applying Agreed-Upon Procedures

For the Year Ended September 30, 2018

BKD

CPAs & Advisors

BKD
CPAs & Advisors

14241 Dallas Parkway, Suite 1100 | Dallas, TX 75254-2961
972.702.8262 | Fax 972.702.0673 | bkd.com

Independent Accountant's Report on Applying Agreed-Upon Procedures

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

We have performed the procedures enumerated in the attachment to this report, which were agreed to by Hospital Service District No. 3, a Component Unit of Lafourche Parish, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (Medical Center), and the Louisiana Legislative Auditor (LLA) on the control and compliance areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the year ended September 30, 2018. The management of the Medical Center is responsible for the control and compliance areas identified in the LLA's SAUPs.

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

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

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

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

BKD, LLP

Dallas, Texas
March 20, 2019

Written Policies and Procedures

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

   a) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget.

   b) ***Purchasing***, including (1) how purchases are initiated, (2) how vendors are added to the vendor list, (3) the preparation and approval process of purchase requisitions and purchase orders, (4) controls to ensure compliance with the public bid law, and (5) documentation required to be maintained for all bids and price quotes.

   c) ***Disbursements***, including processing, reviewing, and approving.

   d) ***Receipts/Collections***, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

   e) ***Payroll/Personnel***, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

   f) ***Contracting***, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.

   g) ***Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)***, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases).

   h) ***Travel and expense reimbursement***, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.

   i) ***Ethics***, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.

j) ***Debt Service***, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

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

- Budgeting – Amending the budget
- Contracting – Legal review
- Travel and Expense – Dollar thresholds by category of expense
- Debt Service – Not applicable as the Medical Center does not have debt

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

Bank Reconciliations

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

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

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

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

Management's Response: Management will maintain formal documentation of monthly review for all bank accounts.

Collections

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

Results: Obtained a listing of deposit sites from management and management's representation that the listing was complete and selected 5 deposit sites for testing.

4. For each deposit site selected, obtain a listing of collection locations and managements representation that the listing is complete. Randomly select one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:

   a) Employees that are responsible for cash collections do not share cash drawers/registers.

   b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.

   c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.

   d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.

Results: Obtained a listing of collection locations for each deposit site selected for testing and management's representation that the listing was complete. Selected one collection site from each of the five deposit sites. All collection sites selected maintained policies and procedures that properly segregated duties as detailed above.

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

Results: Per discussion with management, each person responsible for collecting cash is covered under an insurance policy covering employee theft and employee dishonesty.

6. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #2 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). Obtain supporting documentation for each of the 10 deposits and:
   a) Observe that receipts are sequentially pre-numbered.
   b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.
   c) Trace the deposit slip total to the actual deposit per the bank statement.
   d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than $100).
   e) Trace the actual deposit per the bank statement to the general ledger.

Results: For the five bank accounts selected, from procedure #2 under "Bank Reconciliations," two accounts did not have cash deposits. For the remaining three accounts selected, two deposit dates were randomly selected for testing. Supporting documentation was obtained for criteria a) through e) with no exceptions identified.

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

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

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

8. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:
   a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.)].

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

Results: Randomly selected 5 cards and one month for testing from the listing of credit cards provided by management. For the 5 statements selected for testing, noted evidence of supporting documentation, review and approval and that no finance or late charges were assessed on the selected statements.

9. Using the monthly statements or combined statements selected under #8 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only).

Results: For the five credit cards selected at procedure #8, randomly selected 10 transactions from the statement selected for testing and obtained supporting documentation noting all requirements (1) through (3) were met without exception.

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

10. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:

   a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).

   b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.

   c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).

   d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Results: Obtained a listing of all travel and travel-related expense reimbursements from management and management's representation that the listing was complete. Randomly selected 5 travel expense reimbursement for testing and each reimbursement was supported by the documentation listed in criteria a) through d) with no exceptions noted.

Payroll and Personnel

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

Results: Obtained a listing of all employees/elected officials employed during the fiscal period from management and management's representation that the listing was complete and randomly selected 5 employees/officials, obtained related paid salaries and personnel files and agreed paid salaries to authorized rates in personnel files.

12. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #11 above, obtain attendance records and leave documentation for the pay period, and:

a) Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)

b) Observe that supervisors approved the attendance and leave of the selected employees/officials.

c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

Results: All of the documentation listed in items a) and c) above were maintained for the 5 employees randomly selected for testing.

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

Results: Obtained a listing of terminated employees and termination payments during the fiscal period from management and management's representation that the listing was complete. The two payments randomly selected for testing were supported by the documentation listed above with no exceptions noted.

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

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