



Management's Discussion and Analysis
and Financial Statements
September 30, 2023 and 2022

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

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
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September 30, 2023 and 2022

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hospital Service District No. 3 (the District), a Component Unit of Lafourche Parish, State of Louisiana, as of and for the years then ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of September 30, 2023 and 2022, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Compensation, Reimbursements, Benefits and Other Payments to the Agency Head is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information 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. The 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 GAAS. In our opinion, the Schedule of Compensation, Reimbursements, Benefits and Other Payments to the Agency Head is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2024 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
February 1, 2024

Introduction

The discussion and analysis of the financial performance for Hospital Service District No. 3 (the District), a Component Unit of Lafourche Parish, State of Louisiana, provides an overview of the District's financial activities and balances as of and for the fiscal years ended September 30, 2023, 2022 and 2021. The intent of this discussion and analysis is to provide further information on the District's performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding their understanding of the District's financial status.

Financial Highlights

Through September 30, 2019, the District operated a regional medical center. Effective October 1, 2019, the District began leasing all hospital buildings and equipment to Thibodaux Regional Health Systems Inc. (TRHS) in exchange for a note receivable. Due to this transition, the District did not provide healthcare related services or incur expenses related to the delivery of health care services to patients during the years ended September 30, 2023, 2022 and 2021. The only activity of the District for years ended September 30, 2023, 2022 and 2021 is the continued development of the cancer center and leasing the hospital buildings and equipment to TRHS.

- Total assets decreased in 2023 by approximately \$42,337,000 or 10% and decreased in 2022 by approximately \$52,107,000 or 11%.
- Total liabilities increased in 2023 by approximately \$100,000 or 100% and decreased in 2022 by approximately \$3,660,000 or 100%.
- The District's net position decreased in 2023 by approximately \$3,643,000 or 1% and decreased in 2022 by approximately \$5,254,000 or 1%.

Using This Annual Report

The District's financial statements consist of three statements – Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows. These financial statements and related notes provide information about activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, or enabling legislation. The District is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about the District's finances is "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Management's Discussion and Analysis

These two statements report the District's net position and changes in it. You can think of the District's net position - the difference between assets and liabilities - as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as local economic factors to assess the overall health of the District.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing 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 balance during the reporting period?".

The District's Net Position

The District's net position is the difference between its assets and liabilities and deferred inflows of resources reported in the Statement of Net Position. The District's net position decreased by approximately \$3,643,000 or 1% in 2023 and decreased by approximately \$5,254,000 or 1% in 2022 as shown below in Table 1.

Table 1: Assets, Liabilities, and Net Position (In Thousands)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets			
Current assets	\$ 33,785	\$ 26,338	\$ 22,591
Capital assets, net	174,113	184,994	193,497
Other noncurrent assets	192,661	231,564	278,915
	<u>400,559</u>	<u>442,896</u>	<u>495,003</u>
Total assets	\$ 400,559	\$ 442,896	\$ 495,003
Liabilities			
Current liabilities	\$ 100	\$ -	\$ 3,660
Deferred inflows of resources	57,042	95,836	139,029
	<u>57,142</u>	<u>95,836</u>	<u>142,689</u>
Total liabilities and deferred inflows of resources	57,142	95,836	142,689
Net Position			
Net investment in capital assets	174,113	184,994	193,497
Unrestricted	169,304	162,066	158,817
	<u>343,417</u>	<u>347,060</u>	<u>352,314</u>
Total net position	343,417	347,060	352,314
Total liabilities and net position	\$ 400,559	\$ 442,896	\$ 495,003

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Management's Discussion and Analysis

Assets, Liabilities, and Net Position

Significant components of the change in the District's assets, liabilities, and net position is the change in interest receivable, due from TRHS, noncurrent cash, lease receivable and deferred inflows, as discussed below:

- Interest receivable increased in 2023 by approximately \$6,139,000 or 32% and increased in 2022 by approximately \$6,668,000 or 53%.
- Due from TRHS increased in 2023 by approximately \$1,306,000 or 18% due to assets transferred to TRHS during 2023 and decreased in 2022 by approximately \$2,931,000 or 29% due to amounts received from TRHS during 2022.
- Noncurrent cash decreased in 2023 by approximately \$109,000 or 4% due to the purchase of capital assets and decreased in 2022 by approximately \$4,158,000 or 61%.
- Lease receivable and deferred inflows decreased in 2023 by approximately \$38,794,000 or 40% and decreased in 2022 by approximately \$43,193,000 or 31%. The decrease is due to the recognition of rent credit expenditures applied to reduce the lease receivable and deferred inflow of resources.

Table 2: Operating Results and Changes in Net Position (In Thousands)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating Revenues			
Lease revenue, net of credits	\$ -	\$ -	\$ -
Operating Expenses			
Depreciation	9,818	10,410	11,903
Operating Loss	(9,818)	(10,410)	(11,903)
Nonoperating Revenues (Expenses)			
Interest income	6,177	6,675	6,420
Loss on disposal of capital assets	(2)	(1,519)	(34)
Net nonoperating revenues	6,175	5,156	6,386
Change in Net Position	(3,643)	(5,254)	(5,517)
Net Position, Beginning of Year	347,060	352,314	357,831
Net Position, End of Year	<u>\$ 343,417</u>	<u>\$ 347,060</u>	<u>\$ 352,314</u>

Operating Results

As the District transferred all hospital operations to TRHS effective October 1, 2019, the only operating expenses incurred were those associated with the depreciation of the buildings and equipment being leased to TRHS.

Nonoperating Revenues and Expenses

In 2023 and 2022, nonoperating revenues and expenses consist primarily of interest income associated with the note receivable entered into with TRHS in exchange for the transfer of hospital operations and working capital. The interest income decreased by approximately \$497,000 or 7% in 2023 and increased by approximately \$254,000 in 2022 or 4%.

The District's Cash Flows

Changes in the District's operating, noncapital and financing and capital and related financing cash flows are consistent with changes in operating loss and net nonoperating revenues for 2023, 2022 and 2021, discussed earlier.

Capital Assets

The District had approximately \$174,113,000 invested in capital assets at the end of 2023 and approximately \$184,994,000 at the end of 2022, net of accumulated depreciation, as detailed in Note 3 to the financial statements. The District purchased new capital assets totaling approximately \$170,000 in 2023 and approximately \$3,426,000 in 2022. In addition, the District transferred capital assets totaling approximately \$1,206,000 to TRHS in 2023 in exchange for a receivable.

Requests for Information

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

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Statements of Net Position
September 30, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 90,977	\$ 87,725
Interest receivable	25,319,771	19,181,268
Due from Thibodaux Regional Health System, Inc.	8,374,567	7,068,907
Total current assets	33,785,315	26,337,900
Noncurrent Cash		
Internally designated for capital improvements	2,523,783	2,633,128
Capital Assets, Net	174,113,200	184,994,046
Note Receivable	133,095,297	133,095,297
Lease Receivable	57,042,053	95,835,878
Total assets	\$ 400,559,648	\$ 442,896,249
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	\$ 99,858	\$ 272
Total liabilities	99,858	272
Deferred Inflows of Resources	57,042,053	95,835,878
Net Position		
Net investment in capital assets	174,113,200	184,993,657
Unrestricted	169,304,537	162,066,442
Total net position	343,417,737	347,060,099
Total liabilities, deferred inflows of resources, and net position	\$ 400,559,648	\$ 442,896,249

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Lease revenue, net of credits	\$ -	\$ -
Operating Expenses		
Depreciation	<u>9,817,802</u>	<u>10,409,756</u>
Operating Loss	<u>(9,817,802)</u>	<u>(10,409,756)</u>
Nonoperating Revenues (Expenses)		
Interest income	6,177,469	6,674,893
Loss on disposal of capital assets	<u>(2,029)</u>	<u>(1,519,141)</u>
Net nonoperating revenues	<u>6,175,440</u>	<u>5,155,752</u>
Change in Net Position	(3,642,362)	(5,254,004)
Net Position, Beginning of Year	<u>347,060,099</u>	<u>352,314,103</u>
Net Position, End of Year	<u>\$ 343,417,737</u>	<u>\$ 347,060,099</u>

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Statements of Cash Flows
Years Ended September 30, 2023 and 2022

	2023	2022
Net Cash from Noncapital and Financing Activities		
Cash received from Thibodaux Regional Health System, Inc.	\$ -	\$ 2,931,093
Capital and Capital Related Financing Activities		
Purchase of capital assets	(145,674)	(7,085,414)
Proceeds from sale of capital assets	615	-
Net Cash used for Capital and Capital Related Financing Activities	(145,059)	(7,085,414)
Net Cash from Investing Activities		
Investment income	38,966	6,453
Net Change in Cash and Cash Equivalents	(106,093)	(4,147,868)
Cash and Cash Equivalents, Beginning of Year	2,720,853	6,868,721
Cash and Cash Equivalents, End of Year	\$ 2,614,760	\$ 2,720,853
Reconciliation of Cash and Cash Equivalents to the Schedule of Net Position		
Cash and cash equivalents	\$ 90,977	\$ 87,725
Internally designated for capital improvements	2,523,783	2,633,128
Total cash and cash equivalents	\$ 2,614,760	\$ 2,720,853
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (9,817,802)	\$ (10,409,756)
Depreciation	9,817,802	10,409,756
Net Cash from Operating Activities	\$ -	\$ -
Supplemental Disclosure of Noncash Noncapital and Financing Activities		
Receivable obtained for transfer of capital assets	\$ 1,205,660	\$ -
Receivable obtained for legal expense accrual	\$ 100,000	\$ -
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Capital asset additions in accounts payable	\$ -	\$ 389
Non-cash lease receivable forgiveness	\$ 38,793,825	\$ 43,192,638

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of the Hospital Service District No. 3 (District), a Component Unit of Lafourche Parish, State of Louisiana have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the District are described below.

Reporting Entity

Through September 30, 2019, the District, also known as Thibodaux Regional Medical Center, operated a regional medical center located in Thibodaux, Louisiana that primarily earned revenues by providing inpatient, outpatient and emergency care services to patients in the Lafourche Parish (Parish) area. The Parish appoints a five-member board of commissioners who operate the District. Effective October 1, 2019, the District transferred the hospital operations to Thibodaux Regional Health System, Inc. (TRHS) as described in Note 4.

For financial reporting purposes, the District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that the exclusion would cause the District's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the District's assets, deferred inflows, and liabilities with the difference reported as net position. Net position is reported in the following components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets.

Restricted net position:

Restricted - expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation. The District had no restricted, expendable net position at September 30, 2023 and 2022.

Restricted – nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the District. The District had no restricted, nonexpendable net position at September 30, 2023 and 2022.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated and externally restricted cash equivalents. For purposes of the statement of cash flows, the District considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Capital Assets

Capital asset acquisitions in excess of \$500 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of capital assets are as follows:

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are excluded from expenses in excess of revenues. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

The District considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. No impairment was identified for the years ended September 30, 2023 and 2022.

Operating Revenues and Expenses

The District's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. As the District transferred all hospital operations to TRHS effective October 1, 2019, operating revenues consist of lease revenue related to the buildings and equipment being leased to TRHS and operating expenses consist of the depreciation associated with the leased property.

Deferred Inflows of Resources

Deferred inflows of resources represent an increase in net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The deferred inflows of resources reported in the financial statements are deferred lease revenue.

Income Tax

As an essential government function of the Parish, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income.

Implementation of GASB Statement No. 96

As of October 1, 2022, the District adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*. The implementation of this standard establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. As of September 30, 2023, 2022 and 2021, the District did not have any SBITAs which were required to be recognized under GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*.

Note 2 - Deposits

The carrying amounts of the District's deposits at September 30, 2023 and 2022 are as follows:

	2023	2022
Cash deposits	\$ 2,614,760	\$ 2,720,853

Deposits are reported in the following statement of net position captions:

	2023	2022
Cash and cash equivalents	\$ 90,977	\$ 87,725
Board designated for capital expenditures	2,523,783	2,633,128
	\$ 2,614,760	\$ 2,720,853

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires collateralization of all deposits with federal depository insurance or other qualified investments in the state of Louisiana. At September 30, 2023 and 2022, the District's deposits were either insured or collateralized.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Notes to Financial Statements
September 30, 2023 and 2022

Note 3 - Capital Assets

Capital assets additions, disposals, transfers and balances for the year ended September 30, 2023 are as follows:

	Balance September 30 2022	Additions	Disposal	Transfers	Balance September 30 2023
Capital assets not being depreciated					
Land	\$ 9,014,855	\$ -	\$ -	\$ -	\$ 9,014,855
Total capital assets not being depreciated	<u>\$ 9,014,855</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,014,855</u>
Capital assets being depreciated					
Land improvements	\$ 6,627,929	\$ -	\$ -	\$ -	\$ 6,627,929
Building and improvements	269,880,727	170,221	-	-	270,050,948
Equipment	80,902,023	-	(1,314,935)	-	79,587,088
Total capital assets being depreciated	<u>357,410,679</u>	<u>\$ 170,221</u>	<u>\$ (1,314,935)</u>	<u>\$ -</u>	<u>356,265,965</u>
Total accumulated depreciation	<u>(181,431,488)</u>	<u>\$ (9,817,802)</u>	<u>\$ 81,670</u>	<u>\$ -</u>	<u>(191,167,620)</u>
Net capital assets being depreciated	<u>\$ 175,979,191</u>				<u>\$ 165,098,345</u>
Capital assets, net	<u>\$ 184,994,046</u>				<u>\$ 174,113,200</u>

During 2023, the District transferred \$1,205,660 of capital assets to TRHS in exchange for a receivable (Note 5).

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Notes to Financial Statements
September 30, 2023 and 2022

Capital assets additions, disposals, transfers and balances for the year ended September 30, 2022 are as follows:

	Balance September 30 2021	Additions	Disposals	Transfers	Balance September 30 2022
Capital assets not being depreciated					
Land	\$ 7,936,002	\$ -	\$ -	\$ 1,078,853	\$ 9,014,855
Construction in progress	46,043,686	3,131,290	-	(49,174,976)	-
Total capital assets not being depreciated	<u>\$ 53,979,688</u>	<u>\$ 3,131,290</u>	<u>\$ -</u>	<u>\$ (48,096,123)</u>	<u>\$ 9,014,855</u>
Capital assets being depreciated					
Land improvements	\$ 6,668,258	\$ -	\$ (40,329)	\$ -	\$ 6,627,929
Building and improvements	226,693,434	-	(3,642,524)	46,829,817	269,880,727
Equipment	88,603,675	294,344	(9,262,302)	1,266,306	80,902,023
Total capital assets being depreciated	<u>321,965,367</u>	<u>\$ 294,344</u>	<u>\$ (12,945,155)</u>	<u>\$ 48,096,123</u>	<u>357,410,679</u>
Total accumulated depreciation	<u>(182,447,746)</u>	<u>\$ (10,409,756)</u>	<u>\$ 11,426,014</u>	<u>\$ -</u>	<u>(181,431,488)</u>
Net capital assets being depreciated	<u>\$ 139,517,621</u>				<u>\$ 175,979,191</u>
Capital assets, net	<u>\$ 193,497,309</u>				<u>\$ 184,994,046</u>

Note 4 - Hospital Transition and Lease Agreement

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

Effective October 1, 2019, the District began leasing all hospital buildings and equipment and transferred working capital and hospital operations to TRHS in exchange for a note receivable due from TRHS of approximately \$133,095,000 due at the end of the initial term of the lease. The note receivable is further described at Note 6. The hospital transition agreement provides that the District retains certain powers incident to its purpose as a hospital service district; that TRHS shall at all times operate the facilities in conformity with the standard performance of the Joint Commission for the Accreditation of Healthcare Organizations; and that TRHS shall operate the hospital to provide healthcare services at a level of such services comparable to that of the District prior to the transition. TRHS will provide substantially all of the management and direction of the hospital operations, subject only to the District's constitutional and statutory duties to provide or cause to provide medical and hospital care to the Parish's needy inhabitants.

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Notes to Financial Statements
September 30, 2023 and 2022

The District has accounted for the disposal of operations in accordance with GASB 69, *Government Combinations and Disposals of Government Operations*. The disposal was accomplished by TRHS acquiring certain licenses, contracts and the working capital of the District in exchange for the note receivable. The term of the lease between the District and TRHS is 30 years with two successive options to renew the lease for a period of 10 additional years. At the end of each lease year, TRHS is subject to pay rent of \$10,450,000 per year, with stated escalations throughout the term of the lease. In addition, TRHS is entitled to specific credits against the rent due that are identified in the lease, primarily related to capital expenditures and other expenses as defined in the lease agreement. Upon the end of the lease term or any extensions thereof, all of the remaining assets of TRHS shall be transferred, assigned and conveyed back to the District. The lease receivable is further described at Note 5.

Note 5 - Lease Receivable

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

The leases were measured based upon the stated rent increases defined in the lease agreement at lease commencement. Rent credits not yet earned by the lessee are variable payments that were not considered in the measurement of the leases as they are dependent upon future performance by TRHS and therefore are recognized in the period in which they are earned. Pursuant to the lease agreement, rent credits that exceed total rent due in a current year may be applied against future rent or from time to time against the note and interest receivable.

The following is a schedule of amounts due under the lease and the anticipated application of rent credits to reduction of future year's lease amounts based on credits earned through September 30, 2023.

<u>Years Ending September 30,</u>	Gross Lease Receivable	Imputed Interest	Lease Receivable	Rent Credits	Lease Receivable, Net Of Credits
2024	\$ 10,463,500	\$ 8,260,373	\$ 2,203,127	\$ (2,203,127)	\$ -
2025	11,101,000	8,162,334	2,938,666	(2,938,666)	-
2026	11,114,905	8,031,563	3,083,342	(3,083,342)	-
2027	11,114,905	7,894,355	3,220,550	(3,220,550)	-
2028	11,114,905	7,751,040	3,363,865	(3,363,865)	-
2029-2033	58,416,889	36,176,283	22,240,606	(22,240,606)	-
2034-2038	62,169,729	30,423,930	31,745,799	(31,745,799)	-
2039-2043	66,200,451	22,332,937	43,867,514	(43,867,514)	-
2044-2048	70,547,320	11,265,609	59,281,711	(15,920,843)	43,360,868
2049	14,289,997	608,812	13,681,185	-	13,681,185
Total	<u>\$ 326,533,601</u>	<u>\$ 140,907,236</u>	<u>\$ 185,626,365</u>	<u>\$ (128,584,312)</u>	<u>\$ 57,042,053</u>

During the years ended September 30, 2023 and 2022, no revenue was recognized under the lease with TRHS as total rent credits exceeded the rent due. Through September 30, 2023, total cumulative rent credits earned by TRHS totaled approximately \$188,322,000 and have been applied as a reduction in lease receivable and deferred inflows of resources in the amounts of \$14,804,311 and \$14,893,599 for the years ended September 30, 2023 and 2022, with the remaining amount of \$128,584,312 to be applied against future rent. Due to the rent credits earned by TRHS as of the year ended September 30, 2023, rent will not be due by TRHS until the year ended September 30, 2045.

During 2021, the District transferred \$10,000,000 to TRHS for facility expansion as part of the lease. During 2023, the District transferred \$1,205,660 of capital assets to TRHS. As of September 30, 2023 and 2022, the District had balances of \$8,374,567 and \$7,068,907, which were included as due from TRHS on the statements of net position.

Note 6 - Note and Interest Receivable

On October 1, 2019, the District transferred all working capital and operations of the hospital to TRHS in exchange for a note receivable of approximately \$133,095,000. The note receivable bears interest at 4.45%. Interest payments are due annually and the unpaid principal balance shall be due in full at the end of the lease. As of September 30, 2023, amounts due under the note receivable and interest receivable totaled \$133,095,297 and \$25,319,771 and are included in the accompanying statement of net position. As of September 30, 2022, amounts due under the note receivable and interest receivable totaled \$133,095,297 and \$19,181,268 and are included in the accompanying statement of net position.



Supplementary Information
September 30, 2023 and 2022

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

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
Schedule of Compensation, Reimbursements, Benefits and Other Payments to the Agency Head
Year Ended September 30, 2023

Agency Head Name: Danny Cavell, Board of Commissioners Chairman

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



**Independent Auditor’s Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of Hospital Service District No. 3 (the District), a Component Unit of Lafourche Parish, State of Louisiana, as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon dated February 1, 2024.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
February 1, 2024