

**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, 2016 and 2015



**Hospital Service District No. 3**  
**A Component Unit of Lafourche Parish, State of Louisiana**  
**(d/b/a Thibodaux Regional Medical Center)**  
**September 30, 2016 and 2015**

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Hospital Service District No. 3, a Component Unit of Lafourche Parish, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (Medical Center), as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 3, a Component Unit of Lafourche Parish, State of Louisiana (d/b/a Thibodaux Regional Medical Center) as of September 30, 2016 and 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

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

Board of Commissioners  
Hospital Service District No. 3  
A Component Unit of Lafourche Parish, State of Louisiana  
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**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2017, on our consideration of the Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hospital Service District No. 3's, a component unit of Lafourche Parish, State of Louisiana (d/b/a Thibodaux Regional Medical Center) internal control over financial reporting and compliance.

*BKD, LLP*

Dallas, Texas  
March 21, 2017

**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, 2016 and 2015**

***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, 2016 and 2015. It should be read in conjunction with the accompanying financial statements of the Medical Center.

***Using This Annual Report***

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

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

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

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

***The Statement of Cash Flows***

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

**Hospital Service District No. 3**  
**A Component Unit of Lafourche Parish, State of Louisiana**  
**(d/b/a Thibodaux Regional Medical Center)**  
**Management's Discussion and Analysis (Continued)**  
**Years Ended September 30, 2016 and 2015**

**2016 Financial Highlights**

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

**The Medical Center's Net Position**

The Medical Center's net position is the difference between its assets and liabilities reported in the balance sheet. The Medical Center's net position increased by approximately \$7,217,000 or 2.2% in 2016 over 2015, as shown in Table 1.

**Table 1: Assets, Liabilities and Net Position**

	2016	2015
	<i>(In Thousands)</i>	
<b>Assets</b>		
Patient accounts receivable, net	\$ 18,880	\$ 17,730
Other current assets	15,561	15,121
Capital assets, net	185,363	162,834
Investments, noncurrent	138,767	153,458
Other noncurrent assets	1,525	1,763
Total assets	\$ 360,096	\$ 350,906
<b>Liabilities</b>		
Total current liabilities	\$ 20,454	\$ 18,481
<b>Net Position</b>		
Net investment in capital assets	181,816	162,834
Unrestricted	157,826	169,591
Total net position	339,642	332,425
Total liabilities and net position	\$ 360,096	\$ 350,906

**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, 2016 and 2015**

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

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

In 2016, the Medical Center's net position increased by \$7,217,000 or 2.2% as shown in Table 2. This increase is made up of several different components and represents a decline of 31.8% compared with the increase in net position for 2015 of approximately \$10,588,000.

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

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



**Hospital Service District No. 3**  
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**Management's Discussion and Analysis (Continued)**  
**Years Ended September 30, 2016 and 2015**

***Operating Income***

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

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

- A decrease in net patient service revenue of approximately \$1,159,000 or 0.7%
- A decrease in other operating revenues of approximately \$397,000 or 9.4%
- An increase in salaries, wages and employee benefits of approximately \$1,018,000 or 1.3%
- An increase in supplies and other costs of \$1,358,000 or 2.0%

During fiscal year 2016, the Medical Center derived 97.7% of its total operating revenue from net patient service revenue. Below is a breakout of gross patient service revenues and contractual and other adjustments by payer as of the years ended September 30, 2016 and 2015:

	2016	2015	Dollar Change	Percent
	<i>(In Thousands)</i>			
Gross patient service revenue	\$ 647,258	\$ 614,444	\$ 32,814	5.3%
Contractual and other adjustments				
Medicare	260,581	234,645	25,936	(0.9%)
Managed Care	113,985	117,486	(3,501)	-3.0%
Medicaid	62,737	54,488	8,249	15.1%
Other	27,492	24,150	3,342	13.8%
Total contractual adjustments	464,795	430,769	34,026	7.9%
	182,463	183,675	(1,212)	-0.7%
Provision for bad debts	20,266	20,319	(53)	-0.3%
Net patient service revenue	\$ 162,197	\$ 163,356	\$ (1,159)	-0.7%

**Hospital Service District No. 3**  
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**Management's Discussion and Analysis (Continued)**  
**Years Ended September 30, 2016 and 2015**

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

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

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

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

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

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

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

The Medical Center did not incur any interest expense as they did not have any outstanding debt as of September 30, 2016 and 2015. EBIDA for the year ended September 30, 2016 decreased \$3,932,000 or 19.6% for the reasons noted above in changes in operating income.

**Hospital Service District No. 3**  
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**Management's Discussion and Analysis (Continued)**  
**Years Ended September 30, 2016 and 2015**

***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses consist primarily of investment income and income from joint ventures. Investment income consists of interest earnings on funds designated by the board of commissioners. Other gains/losses that are not directly related to the provision of healthcare services are also classified as nonoperating income. Nonoperating income decreased slightly from the prior year largely due a reduction in income from joint venture. The Medical Center has no interest expense as they had no outstanding debt in 2016 and 2015.

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

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

***Capital Assets***

At the end of 2016 and 2015, the Medical Center had approximately \$185,363,000 and \$162,834,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2016 and 2015, the Medical Center purchased new property and equipment costing approximately \$32,670,000 and \$43,941,000, respectively.

**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, 2016 and 2015**

**2015 Financial Highlights**

- Cash and investments decreased by approximately \$16,892,000 or 9.3% in 2015 compared to 2014
- The Medical Center's net position increased approximately \$10,588,000 or 3.3% in 2015 compared to 2014
- The Medical Center reported operating income in 2015 of approximately \$9,336,000, and in 2014 of approximately \$13,639,000 a decrease of \$4,302,000 or 31.5%
- Net nonoperating revenues decreased by approximately \$1,834,000 or 59.4% in 2015 compared to 2014

**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 \$10,588,000 or 3.3% in 2015 over 2014, as shown in Table 3.

**Table 3: Assets, Liabilities and Net Position**

	2015	2014
	<i>(In Thousands)</i>	
<b>Assets</b>		
Patient accounts receivable, net	\$ 17,730	\$ 19,088
Other current assets	15,121	22,974
Capital assets, net	162,834	129,693
Investments, noncurrent	153,458	163,117
Other noncurrent assets	1,763	1,531
Total assets	\$ 350,906	\$ 336,403
<b>Liabilities</b>		
Total current liabilities	\$ 18,481	\$ 14,566
<b>Net Position</b>		
Net investment in capital assets	162,834	129,693
Unrestricted	169,591	192,144
Total net position	332,425	321,837
Total liabilities and net position	\$ 350,906	\$ 336,403

**Hospital Service District No. 3**  
**A Component Unit of Lafourche Parish, State of Louisiana**  
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**Management's Discussion and Analysis (Continued)**  
**Years Ended September 30, 2016 and 2015**

A significant change in the Medical Center's assets in 2015 is the increase in capital assets and decrease in cash and investments. Net capital assets increased by approximately \$33,141,000 or 25.6% in 2015 over 2014. Cash and investments decreased approximately \$16,892,000 or 9.3% in 2015 over 2014. The increase in capital assets and decrease in cash and investments results primarily from the Medical Center investing cash and investments into capital assets related to the Wellness Facility, a free standing facility under construction funded by the Medical Center's cash on hand.

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

In 2015, the Medical Center's net position increased by \$10,588,000 or 3.3% as shown in Table 2. This increase is made up of several different components and represents a decline of 36.7% compared with the increase in net position for 2014 of approximately \$16,725,000.

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

	2015	2014
	<i>(In Thousands)</i>	
<b>Operating Revenues</b>		
Net patient service revenue	\$ 163,356	\$ 159,193
Other operating revenues	4,205	4,749
Total operating revenues	<u>167,561</u>	<u>163,942</u>
<b>Operating Expenses</b>		
Salaries, wages and employee benefits	79,739	73,276
Supplies, professional fees and purchased services	67,727	65,675
Depreciation and amortization	10,759	11,352
Total operating expenses	<u>158,225</u>	<u>150,303</u>
<b>Operating Income</b>	<u>9,336</u>	<u>13,639</u>
<b>Nonoperating Revenues</b>	<u>1,252</u>	<u>3,086</u>
<b>Increase in Net Position</b>	<u>\$ 10,588</u>	<u>\$ 16,725</u>

**Hospital Service District No. 3**  
**A Component Unit of Lafourche Parish, State of Louisiana**  
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**Management's Discussion and Analysis (Continued)**  
**Years Ended September 30, 2016 and 2015**

***Operating Income***

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

The operating income decreased in 2015 by approximately \$4,302,000 or 31.5% as compared to 2014. The primary components of the decreased operating income are shown below:

- An increase in net patient service revenue of approximately \$4,163,000 or 2.6%
- A decrease in other operating revenues of approximately \$544,000 or 11.5%
- An increase in salaries, wages and employee benefits of approximately \$6,463,000 or 8.8%
- An increase in supplies and other costs of approximately \$2,052,000 or 3.1%

During fiscal year 2015, the Medical Center derived 97.5% of its total operating revenue from net patient service revenue. Net patient service revenue increased partially due to changes in payer mixes as well as a rate increase applied on May 1, 2015. Below is a breakout of gross patient service revenues and contractual and other adjustments by payer as of the years ended September 30, 2015 and 2014.

	2015	2014	Dollar Change	Percent
	<i>(In Thousands)</i>			
Gross patient service revenue	\$ 614,444	\$ 595,856	\$ 18,588	3.1%
Contractual and other adjustments				
Medicare	234,645	236,814	(2,169)	-0.9%
Managed Care	117,486	110,770	6,716	6.1%
Medicaid	54,488	49,961	4,527	9.1%
Other	24,150	19,728	4,422	22.4%
Total contractual adjustments	<u>430,769</u>	<u>417,273</u>	<u>13,496</u>	<u>3.2%</u>
Provision for bad debts	<u>183,675</u>	<u>178,583</u>	<u>5,092</u>	<u>2.9%</u>
	<u>20,319</u>	<u>19,390</u>	<u>929</u>	<u>4.8%</u>
Net patient service revenue	<u>\$ 163,356</u>	<u>\$ 159,193</u>	<u>\$ 4,163</u>	<u>2.6%</u>

**Hospital Service District No. 3**  
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**Management's Discussion and Analysis (Continued)**  
**Years Ended September 30, 2016 and 2015**

Gross patient service charges increase \$18,588,000 or 3.1% from the prior year primarily due to the rate increase applied May 1, 2015. Net patient service revenue, before provision for bad debts, increased \$5,092,000 or 2.9%. Total provision for contractual adjustments as percent of gross patient service revenues were 70.1% for 2015 and 70.0% in the prior year.

Excluded from gross patient service revenue are amounts forgone for patient services falling under the Medical Center's charity care policy. These amounts were based on established rates for the services provided. Gross charges of approximately \$3,244,000 were forgone during 2015 compared to approximately \$3,612,000 during 2014.

The provision for bad debts increased to approximately \$20,319,000 from the prior year amount of approximately \$19,390,000. The increase of approximately \$929,000 or 4.8% is driven primarily by effects of the current economic conditions and increases in gross patient service revenues.

The other operating revenue decrease consists primarily of electronic health record (EHR) funding awarded from Medicare and Medicaid. EHR funds awarded from Medicare and Medicaid during 2015 totaled approximately \$960,000 and \$55,000, respectively, compared to funds awarded in 2014 of approximately \$1,500,000 and \$255,000, respectively.

The increase in salaries, wages and employee benefits expense in 2015 was partially due to increases in employees including additional employed physicians as well as increase in claims expense in the current year related to employee health benefits.

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

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

	2015	2014
	<i>(In Thousands)</i>	
<b>Operating Income</b>	\$ 9,336	\$ 13,639
Plus depreciation and amortization	10,759	11,352
EBIDA	\$ 20,095	\$ 24,991

The Medical Center did not incur any interest expense as they did not have any outstanding debt as of September 30, 2015 and 2014. EBIDA for the year ended September 30, 2015 decreased \$4,896,000 or 19.6% for the reasons noted above in changes in operating income.

**Hospital Service District No. 3**  
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**Management's Discussion and Analysis (Continued)**  
**Years Ended September 30, 2016 and 2015**

***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses consist primarily of investment income and income from joint ventures. Investment income consists of interest earnings on funds designated by the board of commissioners. Other gains/losses that are not directly related to the provision of healthcare services are also classified as nonoperating income. Nonoperating income decreased from the prior year due to a partial sale of its share in the surgical and endoscopy services joint venture, which resulted in a gain on sale in 2014 of \$1,460,000. The Medical Center has no interest expense as they had no outstanding debt in 2015 and 2014.

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

Changes in the Medical Center's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2015 and 2014, discussed earlier.

***Capital Assets***

At the end of 2015 and 2014, the Medical Center had approximately \$162,834,000 and \$129,693,000 respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2015 and 2014, the Medical Center purchased new property and equipment costing approximately \$43,941,000 and \$20,661,000, 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 2017 budget. Although the financial outlook of the Medical Center is excellent, of primary importance in setting the 2017 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
- Impact of Healthcare Reform as it related to reimbursement and employee health coverage



**Hospital Service District No. 3**  
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**Management's Discussion and Analysis (Continued)**  
**Years Ended September 30, 2016 and 2015**

***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.

**Hospital Service District No. 3**  
**A Component Unit of Lafourche Parish, State of Louisiana**  
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**Balance Sheets**  
**September 30, 2016 and 2015**

**Assets**

	2016	2015
<b>Current Assets</b>		
Cash	\$ 10,908,281	\$ 10,834,295
Short-term investments	125,000	125,000
Patient accounts receivable, net of allowance; 2016 – \$15,212,000; 2015 – \$11,891,000	18,879,857	17,729,833
Estimated amounts due from third-party payers	377,507	277,255
Other receivables	107,511	60,621
Supplies	2,578,526	2,520,013
Prepaid expenses and other	1,465,343	1,581,627
Total current assets	34,442,025	33,128,644
 <b>Noncurrent Cash and Investments</b>		
Board designated for capital expenditures	138,766,509	153,457,769
	138,766,509	153,457,769
 <b>Capital Assets, Net</b>	185,362,616	162,833,736
 <b>Other Assets</b>	1,524,662	1,486,249
Total assets	\$ 360,095,812	\$ 350,906,398

## Liabilities and Net Position

	<u>2016</u>	<u>2015</u>
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 20,001,345	\$ 17,822,305
Estimated amounts due to third-party payers	<u>452,669</u>	<u>658,950</u>
Total current liabilities	<u>20,454,014</u>	<u>18,481,255</u>
<b>Net Position</b>		
Net investment in capital assets	181,815,557	162,833,736
Unrestricted	<u>157,826,241</u>	<u>169,591,407</u>
Total net position	<u>339,641,798</u>	<u>332,425,143</u>
Total liabilities and net position	<u>\$ 360,095,812</u>	<u>\$ 350,906,398</u>

**Hospital Service District No. 3**  
**A Component Unit of Lafourche Parish, State of Louisiana**  
**(d/b/a Thibodaux Regional Medical Center)**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended September 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2016 – \$20,266,000; 2015 – \$20,319,000	\$ 162,197,016	\$ 163,356,172
Other	3,808,637	4,205,522
	<u>166,005,653</u>	<u>167,561,694</u>
<b>Operating Expenses</b>		
Salaries and wages	66,422,747	64,992,478
Employee benefits	14,334,494	14,746,558
Professional fees and services	8,544,530	8,970,515
Supplies and other	37,537,637	36,563,431
Purchased services	13,920,673	13,302,776
Other	9,083,034	8,890,776
Depreciation and amortization	10,112,347	10,758,762
	<u>159,955,462</u>	<u>158,225,296</u>
<b>Operating Income</b>	<u>6,050,191</u>	<u>9,336,398</u>
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	374,656	386,944
Noncapital grants and contributions received	64,507	72,455
Noncapital grants and contributions expensed	(37,724)	(47,817)
Loss from disposal of capital assets	(6,044)	(7,303)
Income from joint venture	771,069	847,480
	<u>1,166,464</u>	<u>1,251,759</u>
<b>Increase in Net Position</b>	7,216,655	10,588,157
<b>Net Position, Beginning of Year</b>	<u>332,425,143</u>	<u>321,836,986</u>
<b>Net Position, End of Year</b>	<u>\$ 339,641,798</u>	<u>\$ 332,425,143</u>

**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, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients and third-party payors	\$ 160,952,066	\$ 165,334,081
Payments to suppliers and contractors	(67,784,471)	(69,141,041)
Payments to employees	(81,323,877)	(78,541,421)
Other receipts, net	<u>3,761,747</u>	<u>4,208,837</u>
Net cash provided by operating activities	<u>15,605,465</u>	<u>21,860,456</u>
<b>Noncapital and Financing Activities</b>		
Grants and contributions received	64,507	72,455
Grants and contributions expended	<u>(37,724)</u>	<u>(47,817)</u>
Net cash provided by noncapital and financing activities	<u>26,783</u>	<u>24,638</u>
<b>Capital and Related Financing Activities</b>		
Proceeds from the sale of capital assets	23,122	34,579
Purchase of capital assets	<u>(31,326,035)</u>	<u>(40,090,980)</u>
Net cash used in capital and related financing activities	<u>(31,302,913)</u>	<u>(40,056,401)</u>
<b>Investing Activities</b>		
Interest income	374,656	386,944
Distributions received from joint ventures	678,735	892,223
Net sales of investments	<u>14,691,260</u>	<u>9,659,696</u>
Net cash provided by investing activities	<u>15,744,651</u>	<u>10,938,863</u>
<b>Increase (Decrease) in Cash</b>	73,986	(7,232,444)
<b>Cash, Beginning of Year</b>	<u>10,834,295</u>	<u>18,066,739</u>
<b>Cash, End of Year</b>	<u><u>\$ 10,908,281</u></u>	<u><u>\$ 10,834,295</u></u>

**Hospital Service District No. 3**  
**A Component Unit of Lafourche Parish, State of Louisiana**  
**(d/b/a Thibodaux Regional Medical Center)**  
**Statements of Cash Flows (Continued)**  
**Years Ended September 30, 2016 and 2015**

	2016	2015
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 6,050,191	\$ 9,336,398
Depreciation and amortization	10,112,347	10,758,762
Loss on disposal of capital assets	6,044	7,303
Provision for uncollectible accounts	20,266,499	20,319,004
Changes in operating assets and liabilities		
Patient accounts receivable, net	(21,416,523)	(18,961,156)
Estimated amounts due from and to third-party payers	(306,533)	582,224
Accounts payable and accrued expenses	828,638	(45,677)
Other assets and liabilities	64,802	(136,402)
Net cash provided by operating activities	\$ 15,605,465	\$ 21,860,456
<b>Supplemental Cash Flows Information</b>		
Capital asset additions in accounts payable	\$ 3,547,059	\$ 4,959,070

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

**Notes to Financial Statements**  
**September 30, 2016 and 2015**

**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.

***Basis of Accounting and Presentation***

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

***Use of Estimates***

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

**Hospital Service District No. 3**  
**A Component Unit of Lafourche Parish, State of Louisiana**  
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**Notes to Financial Statements**  
**September 30, 2016 and 2015**

***Cash***

The Medical Center excludes amounts restricted as to use by board designation from cash equivalents. Noncurrent cash includes cash balances at September 30, 2016 and 2015 that were restricted by board designation. At September 30, 2016 and 2015, the Medical Center held no cash equivalents.

***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 and money market mutual funds are carried at amortized cost.

Interest income represents all income on investments.

***Investment in Joint Ventures***

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



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

**Notes to Financial Statements**  
**September 30, 2016 and 2015**

***Patient Accounts Receivable***

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

***Supplies***

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

***Capital Assets***

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

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

***Compensated Absences***

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

**Hospital Service District No. 3**  
**A Component Unit of Lafourche Parish, State of Louisiana**  
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**Notes to Financial Statements**  
**September 30, 2016 and 2015**

***Net Position***

Net position of the Medical Center is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. As of September 30, 2016 and 2015 the Medical Center had no outstanding borrowings. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Medical Center, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. There was no restricted expendable net position at September 30, 2016 and 2015. 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 charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts. The costs of charity care were approximately \$2,449,000 and \$3,244,000 for the years then ended September 30, 2016 and 2015, respectively.

***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. Additionally, 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.

**Hospital Service District No. 3**  
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**Notes to Financial Statements**  
**September 30, 2016 and 2015**

***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the American Recovery and Reinvestment Act of 2009, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which are approved by the Centers for Medicare and Medicaid Services. Payment under both programs is contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Medical Center recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2016 and 2015, the Medical Center recorded revenue from the Medicare program of approximately \$578,000 and \$960,000, respectively. In 2016 and 2015, the Medical Center recorded revenue from the Medicaid program of approximately \$47,000 and \$55,000, respectively. The revenue earned from these programs is included as a component of other operating revenue in the accompanying statements of revenue, expenses and changes in net position.

**Note 2: Net Patient Service Revenue**

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

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare administrative contractor. The Medical Center's cost reports have been audited by the Medicare administrative contractor through September 30, 2013.

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**Notes to Financial Statements**  
**September 30, 2016 and 2015**

- **Medicaid** – Inpatient services rendered to Medicaid program beneficiaries are paid based on prospectively determined rates. Outpatient services are paid under either a cost reimbursement methodology or using defined allowable charges. The Medical Center is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid administrative contractor. The Medical Center’s cost reports have been audited by the Medicaid administrative contractor through September 30, 2012.

Approximately 49% and 45% respectively, of net patient service revenue is from participation in the Medicare and state sponsored Medicaid programs for the years ended September 30, 2016 and 2015. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

**Note 3: Louisiana Medicaid Supplemental Payment Programs**

The Medical Center receives supplemental Medicaid payments for inpatient and outpatient services in accordance with specific state statutes subject to federal regulations and approval. Under one of the agreements the Medical Center received supplemental payments for services provided by physicians in recognition for providing services to Medicaid patients. During the years ended September 30, 2016 and 2015, total revenues, net of expenses, recognized by the Medical Center related to this agreement was approximately \$517,000 and \$330,000, respectively. These receipts and payments are recorded as other operating revenues 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, 2016 and 2015, total revenues, net of expenses, recognized by the Medical Center related to this agreement was approximately \$2,159,000 and \$1,223,000, respectively. These receipts and payments are recorded as other operating revenues in the statements of revenues, expenses and changes in net position.

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**Notes to Financial Statements**  
**September 30, 2016 and 2015**

**Note 4: Deposits and Investments**

***Deposits***

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

State law requires collateralization of all deposits with federal depository insurance or other qualified investments in the state of Louisiana. At September 30, 2016, the Medical Center's deposits were either insured or collateralized in accordance with state law.

***Investments***

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

*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. At September 30, 2016 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 did not hold any investments subject to credit risk at September 30, 2015.

*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, 2016 and 2015, management believes the Medical Center complies with this policy.

*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.

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**Notes to Financial Statements**  
**September 30, 2016 and 2015**

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 Hospital'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:

	2016	2015
Cash deposits, operating funds	\$ 8,801,954	\$ 8,732,179
Cash deposits, board designated funds	85,233,823	105,041,394
Certificates of deposits	2,125,000	2,125,000
Money market deposits, board designated funds	5,639,013	48,518,491
Money market mutual funds, investments, board designated funds	48,000,000	-
	\$ 149,799,790	\$ 164,417,064

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

	2016	2015
Cash	\$ 10,908,281	\$ 10,834,295
Short-term investments	125,000	125,000
Designated assets by board for capital asset additions and replacements	138,766,509	153,457,769
	\$ 149,799,790	\$ 164,417,064

**Hospital Service District No. 3**  
**A Component Unit of Lafourche Parish, State of Louisiana**  
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**Notes to Financial Statements**  
**September 30, 2016 and 2015**

**Note 5: Patient Accounts Receivable**

The Medical Center grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30, 2016 and 2015, consisted of:

	2016	2015
Medicare	\$ 7,315,614	\$ 5,671,234
Medicaid	1,496,782	950,352
Other third-party payers	10,263,731	8,129,381
Patients	15,015,763	14,870,278
	34,091,890	29,621,245
Less allowance for uncollectible accounts	15,212,033	11,891,412
	\$ 18,879,857	\$ 17,729,833

**Note 6: Capital Assets**

Capital assets activity for the years ended September 30, 2016 and 2015, was:

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

**Hospital Service District No. 3**  
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**Notes to Financial Statements**  
**September 30, 2016 and 2015**

	2015				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 7,736,002	\$ -	\$ -	\$ -	\$ 7,736,002
Land improvements	5,793,168	-	-	-	5,793,168
Buildings and improvements	143,211,974	105,965	-	1,476,874	144,794,813
Equipment	77,587,511	6,536,719	(10,831,774)	-	73,292,456
Construction in progress	19,401,364	37,298,285	-	(1,476,874)	55,222,775
	253,730,019	43,940,969	(10,831,774)	-	286,839,214
Less accumulated depreciation	(124,036,608)	(10,758,762)	10,789,892	-	(124,005,478)
Capital assets, net	<u>\$ 129,693,411</u>	<u>\$ 33,182,207</u>	<u>\$ (41,882)</u>	<u>\$ -</u>	<u>\$ 162,833,736</u>

The Medical Center had approximately \$3,691,000 in construction commitments outstanding as of September 30, 2016.

**Note 7: Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses included in current liabilities at September 30, 2016 and 2015, consisted of:

	2016	2015
Payable to suppliers and contractors	\$ 8,835,510	\$ 6,301,441
Payable to employees (including payroll taxes and benefits)	6,266,044	7,142,696
Estimated self insurance costs ( <i>Note 8</i> )	2,815,008	2,744,992
Net post-employment benefit obligation ( <i>Note 10</i> )	1,197,750	957,750
Patient credit balances	887,033	675,426
	<u>\$ 20,001,345</u>	<u>\$ 17,822,305</u>



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**Notes to Financial Statements**  
**September 30, 2016 and 2015**

**Note 8: Risk Management**

***Medical Malpractice and General Liability Risks***

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

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

Activity in the Medical Center's accrued medical malpractice claims liability during 2016 and 2015 is summarized as follows:

	2016	2015
Balance, beginning of year	\$ 682,632	\$ 767,750
Current year claims incurred and changes in estimates for claims incurred in prior years	408,894	336,434
Claims and expenses paid	(318,894)	(421,552)
Balance, end of year	\$ 772,632	\$ 682,632

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, 2016 and 2015, the Medical Center accrued \$180,866 and \$80,866, respectively, as reserves for self-insurance retentions on outstanding general liability claims.

**Hospital Service District No. 3**  
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**Notes to Financial Statements**  
**September 30, 2016 and 2015**

***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 2016 and 2015, is summarized as follows:

	<b>2016</b>	<b>2015</b>
Balance, beginning of year	\$ 1,981,494	\$ 1,279,734
Current year claims incurred and changes in estimates for claims incurred in prior years	6,793,214	7,605,048
Claims and expenses paid	(6,913,198)	(6,903,288)
Balance, end of year	\$ 1,861,510	\$ 1,981,494

**Hospital Service District No. 3**  
**A Component Unit of Lafourche Parish, State of Louisiana**  
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**Notes to Financial Statements**  
**September 30, 2016 and 2015**

**Note 9: Operating Leases**

Operating leases for medical and office equipment expire in various years through 2020. Rental payments include minimum rentals, plus contingent rentals based on revenues. Rental expense for the years ended September 30, 2016 and 2015 totaled approximately \$1,189,000 and \$1,084,000, respectively.

Future minimum lease payments at September 30, 2016, were:

2017	\$ 327,980
2018	133,710
2019	118,289
2020	47,652
	<u>47,652</u>
	<u>\$ 627,631</u>

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 \$1,335,000 and \$1,280,000, respectively, for the years ended September 30, 2016 and 2015.

Minimum future rentals receivable under noncancellable operating leases at September 30, 2016, were:

2017	\$ 641,187
2018	550,581
2019	115,678
2020	-
	<u>-</u>
	<u>\$ 1,307,446</u>

**Note 10: Postemployment Health Care Plan**

***Plan Description***

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

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**Notes to Financial Statements**  
**September 30, 2016 and 2015**

***Funding Policy***

The contribution requirements of plan members and the Medical Center are established and may be amended by the board of commissioners of the Medical Center. The Medical Center is not required to make contributions to the plan on behalf of the retirees and funds the plan on a projected pay-as-you-go basis. For the years ended September 30, 2016 and 2015, retirees in the OPEB Plan were required to make monthly contributions ranging from \$571 to \$1,856 and \$531 to \$1,728, respectively.

***Annual OPEB Cost and Net OPEB Obligation***

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

	<u>2016</u>	<u>2015</u>
Annual required contribution	\$ 245,000	\$ 267,000
Interest on net OPEB obligation	38,000	-
Adjustment to annual required contribution	<u>(34,000)</u>	<u>-</u>
Annual OPEB cost (expense)	<u>249,000</u>	<u>267,000</u>
Contributions made	(9,000)	(27,000)
Increase in net OPEB obligation	<u>240,000</u>	<u>240,000</u>
Net OPEB obligation - beginning of year	<u>957,750</u>	<u>717,750</u>
Net OPEB obligation - end of year	<u><u>\$ 1,197,750</u></u>	<u><u>\$ 957,750</u></u>

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**September 30, 2016 and 2015**

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2016 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
September 30, 2016	\$ 249,000	4%	\$ 1,197,750
September 30, 2015	\$ 267,000	10%	\$ 957,750
September 30, 2014	\$ 211,000	10%	\$ 717,750

***Funded Status and Funding Progress***

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

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

***Actuarial Methods and Assumptions***

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

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

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**Notes to Financial Statements**  
**September 30, 2016 and 2015**

**Note 11: Retirement Plans**

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

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, 2016 and 2015, 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, 2016 and 2015 totaled approximately \$2,345,000 and \$2,343,000, respectively.

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**Notes to Financial Statements**  
**September 30, 2016 and 2015**

**Note 12: Investment in Joint Venture**

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

	<u>2016</u>	<u>2015</u>
Current assets	\$ 1,671,561	\$ 2,195,232
Property and equipment	<u>408,902</u>	<u>329,647</u>
Total assets	<u>\$ 2,080,463</u>	<u>\$ 2,524,879</u>
Current liabilities	\$ 198,386	\$ 174,356
Long-term liabilities	<u>297,530</u>	<u>178,555</u>
Total liabilities	<u>495,916</u>	<u>352,911</u>
Members' capital	<u>1,584,547</u>	<u>2,171,968</u>
Total liabilities and capital	<u>\$ 2,080,463</u>	<u>\$ 2,524,879</u>
Net patient service revenue	\$ 7,551,994	\$ 8,568,422
Operating expenses	<u>(5,668,227)</u>	<u>(5,591,564)</u>
Net income	<u>\$ 1,883,767</u>	<u>\$ 2,976,858</u>

The carrying amount of the Medical Center's investment in the joint venture was \$807,841 and \$775,507 at September 30, 2016 and 2015, respectively.

Income from the Medical Center's investment in the joint venture was \$771,069 and \$847,480 for the years ended September 30, 2016 and 2015, respectively.

Additionally, the Medical Center leases office space to Thibodaux Surgery Center, LLC under an operating lease with an expiration date of December 31, 2018. The lease has renewal options upon expiration. Amounts received under the lease agreements for the years ended September 30, 2016 and 2015, totaled approximately \$452,000 and \$416,000, respectively.

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

**Notes to Financial Statements**  
**September 30, 2016 and 2015**

**Note 13: Significant Estimates and Contingencies**

***Litigation***

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

***Self-insured Employee Health Care***

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

**Note 14: Disclosures About Fair Value of Assets and Liabilities**

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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities



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

**Notes to Financial Statements**  
**September 30, 2016 and 2015**

***Recurring Measurements***

The Medical Center 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. The Medical Center held U.S. agency obligations in other assets, of \$648,429 and \$710,742, at September 30, 2016 and 2015, respectively, classified within Level 2 of the hierarchy.

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, 2016 and 2015.

## **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**  
**September 30, 2016**

Purpose	Amount
Salary	\$ 480,400
Benefits-insurance	15,361
Benefits-retirement	10,477
Vehicle provided by government	10,367
Business meals	1,410
Conference travel	18,211
	<u>\$ 536,226</u>

**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***

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, 2016 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 21, 2017.

***Internal Control Over Financial Reporting***

Management of the Medical Center is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Medical Center's 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 Medical Center'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

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

***Purpose of this Report***

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

**BKD, LLP**

Dallas, Texas  
March 21, 2017

March 23, 2017

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

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

Dear Mr. Cole:

In connection with the completion of our audit for the year ended September 30, 2016, please find attached the status of the prior year findings for the audit for the year ended September 30, 2015.

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

Sincerely,



Steve Gaubert  
Chief Financial Officer

Hospital Service District No. 3 d/b/a Thibodaux Regional Medical Center  
Status of Prior Year Findings

Finding Description	Responsible Personnel	Corrective Action Taken or To Be Taken	Status
15-1 Proper cutoff of accounts payable	Assistant CFO, Accounting Manager, Accountant	The Accounting Department staff, reviews, by department, potential expenses that have occurred in the previous month but have not been invoiced and has actively requested vendors to mail invoices directly to the Accounting Department. Communicates regularly with department directors regarding capital items received and expenses/services incurred but not yet invoiced, and reviews a specific custom report that captures vendor, department, invoice date, amount paid for service dates prior to the monthly general ledger close date.	Resolved