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, 2015 and 2014

BKD LLP
CPAs & Advisors

Hospital Service District No. 3
A Component Unit of Lafourche Parish, State of Louisiana
(d/b/a Thibodaux Regional Medical Center)
September 30, 2015 and 2014

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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 balance sheet 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 September 30, 2015, 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 financial statements.

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 audit. We conducted our audit 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 balance sheet 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, 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.

Prior Year Audited by Other Auditors

The 2014 financial statements were audited by other auditors and their report thereon, dated February 23, 2015, expressed an unmodified opinion.

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 part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. 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. 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2015 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2015 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2016, 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 16, 2016

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, 2015 and 2014

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, 2015 and 2014. 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.

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 1.

Table 1: Assets, Liabilities and Net Position

	2015	2014
Assets	*(In Thousands)*	
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
Liabilities		
Total current liabilities	$ 18,481	$ 14,566
Net Position		
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

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 2: Operating Results and Changes in Net Position

	2015	2014
	(In Thousands)	
Operating Revenues		
Net patient service revenue	$ 163,356	$ 159,193
Other operating revenues	4,205	4,749
Total operating revenues	167,561	163,942
Operating Expenses		
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	158,225	150,303
Operating Income	9,336	13,639
Nonoperating Revenues	1,252	3,086
Increase in Net Position	$ 10,588	$ 16,725

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 $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, 2014 and 2015:

	2015	2014	Dollar Change	Percent
	(In Thousands)			
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	430,769	417,273	13,496	3.2%
	183,675	178,583	5,092	2.9%
Provision for bad debts	20,319	19,390	929	4.8%
Net patient service revenue	$ 163,356	$ 159,193	$ 4,163	2.6%

Gross patient service charges increased $18,588,000 or 3.1% from the prior year primarily due to the rate increase applied on 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 a 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 $3,612,000 during 2014.

The provision for bad debts increased to approximately $20,319,000 from the prior year amount of $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 $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 increases 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
	(In Thousands)	
Operating Income	$ 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.

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 5* 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.

2014 Financial Highlights

- Cash and investments increased by approximately $10,389,000 or 6.1% in 2014 compared to 2013
- The Medical Center's net position increased approximately $16,725,000 or 5.5% in 2014 compared to 2013
- The Medical Center reported operating income in 2014 of approximately $13,639,000, a decrease of $318,000 or 2.3% compared to the operating income reported in 2013
- Net nonoperating revenues increased by approximately $1,488,000 in 2014 compared to 2013

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 $16,725,000 or 5.5% in 2014 over 2013, as shown in Table 3.

Table 3: Assets, Liabilities and Net Position

	2014	2013
	(In Thousands)	
Assets		
Patient accounts receivable, net	$ 19,088	$ 21,819
Other current assets	22,974	19,226
Capital assets, net	129,693	120,510
Investments, noncurrent	163,117	155,839
Other noncurrent assets	1,531	1,785
Total assets	$ 336,403	$ 319,179
Liabilities		
Total current liabilities	$ 14,566	$ 14,067
Net Position		
Net investment in capital assets	129,693	120,510
Unrestricted	192,144	184,602
Total net position	321,837	305,112
Total liabilities and net position	$ 336,403	$ 319,179

The most significant change in the Medical Center's financial position in 2014 is the increase in capital assets. During 2014, the Medical Center invested approximately $20,539,000 in a broad range of capital assets including enhancing existing facilities and equipment as well as constructing a 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 2014, the Medical Center's change in net position increased from approximately $15,555,000 in 2013 to approximately $16,725,000 in 2014 an increase of approximately $1,170,000 or 7.5% as shown in Table 4.

Table 4: Operating Results and Changes in Net Position

	2014	2013
	(In Thousands)	
Operating Revenues		
Net patient service revenue	$ 159,193	$ 146,805
Other operating revenues	4,749	5,542
Total operating revenues	163,942	152,347
Operating Expenses		
Salaries, wages and employee benefits	73,276	65,742
Supplies, professional fees and purchased services	65,675	60,524
Depreciation and amortization	11,352	12,124
Total operating expenses	150,303	138,390
Operating Income	13,639	13,957
Nonoperating Revenues	3,086	1,598
Increase in Net Position	$ 16,725	$ 15,555

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 2014 by approximately $318,000 or 2.3% as compared to 2013. The primary components of the decreased operating income are shown below:

- An increase in net patient service revenue of approximately $12,388,000 or 8.4%
- A decrease in other operating revenues of approximately $793,000 or 14.3%
- An increase in salaries, wages and employee benefits of approximately $7,534,000 or 11.5%
- An increase in supplies and other costs of approximately $5,151,000 or 8.5%

During fiscal year 2014, the Medical Center derived 97.1% of its total operating revenue from net patient service revenue. Net patient service revenue increased due to increases in outpatient and emergency room visits, as well as an increase in oncology services. The Medical Center also had a rate increase applied on February 1, 2014. Below is a breakout of gross patient service revenues and contractual and other adjustments by payer as of the years ended September 30, 2013 and 2014:

	2014	2013	Dollar Change	Percent
	(In Thousands)			
Gross patient service revenue	$ 595,856	$ 536,100	$ 59,756	11.1%
Contractual and other adjustments				
Medicare	236,814	206,349	30,465	14.8%
Managed Care	110,770	101,644	9,126	9.0%
Medicaid	49,961	48,943	1,018	2.1%
Other	19,728	16,355	3,373	20.6%
Total contractual adjustments	417,273	373,291	43,982	11.8%
	178,583	162,809	15,774	9.7%
Provision for bad debts	19,390	16,004	3,386	21.2%
Net patient service revenue	$ 159,193	$ 146,805	$ 12,388	8.4%

Gross patient service charges increased by approximately $59,756,000 or 11.1% from 2013 primarily due to increases in outpatient and emergency room visits, increase in oncology services, as well as the rate increased applied on February 1, 2014. Net patient service revenue, before provision for bad debts, increased approximately $15,774,000 or 9.7%. Total provision for contractual adjustments as a percent of gross patient service revenues were 70.0% for 2014 and 69.6% in 2013.

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 $3,612,000 were forgone during 2014 compared to approximately $2,988,000 during 2013.

The provision for bad debts increased to approximately $19,390,000 from the prior year amount of approximately $16,004,000. The increase of approximately $3,386,000 or 21.2% 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 2014 totaled $1,500,000 and $255,000, respectively, compared to funds awarded in 2013 of $2,025,000 and $425,000, respectively.

The increase in salaries, wages and employee benefits expense in 2014 was partially 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:

	2014	2013
	(In Thousands)	
Operating Income	$ 13,639	$ 13,957
Plus depreciation and amortization	11,352	12,124
EBIDA	$ 24,991	$ 26,081

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, 2014 decreased $1,090,000 or 4.2% for the reasons noted above in changes in operating income.

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 increased from 2013 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 2014 and 2013.

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 2014 and 2013, discussed earlier.

Capital Assets

At the end of 2014 and 2013, the Medical Center had approximately $129,693,000 and $120,510,000 respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2014 and 2013, the Medical Center purchased new property and equipment costing approximately $20,661,000 and $13,326,000, 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 2016 budget. Although the financial outlook of the Medical Center is excellent, of primary importance in setting the 2016 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

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
(d/b/a Thibodaux Regional Medical Center)
Balance Sheets
September 30, 2015 and 2014

Assets

	2015	2014
Current Assets		
Cash and cash equivalents	$ 10,834,295	$ 18,066,739
Short-term investments	125,000	125,000
Patient accounts receivable, net of allowance; 2015 – $11,891,000; 2014 – $14,888,000	17,729,833	19,087,681
Estimated amounts due from third-party payers	277,255	755,902
Other receivables	60,621	56,633
Supplies	2,520,013	2,439,034
Prepaid expenses and other	1,581,627	1,530,229
Total current assets	33,128,644	42,061,218
Noncurrent Cash		
Board designated for capital expenditures	153,457,769	163,117,465
	153,457,769	163,117,465
Capital Assets, Net	162,833,736	129,693,411
Other Assets	1,486,249	1,530,955
Total assets	$ 350,906,398	$ 336,403,049

See Notes to Financial Statements

Liabilities and Net Position

	2015	2014
Current Liabilities		
Accounts payable and accrued expenses	$ 17,822,305	$ 14,010,690
Estimated amounts due to third-party payers	658,950	555,373
Total current liabilities	18,481,255	14,566,063
Net Position		
Net investment in capital assets	162,833,736	129,693,411
Unrestricted	169,591,407	192,143,575
Total net position	332,425,143	321,836,986
Total liabilities and net position	$ 350,906,398	$ 336,403,049

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, 2015 and 2014

	2015	2014
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2015 – $20,319,000; 2014 – $19,390,000	$ 163,356,172	$ 159,192,964
Other	4,205,522	4,748,565
Total operating revenues	167,561,694	163,941,529
Operating Expenses		
Salaries and wages	64,992,478	62,026,168
Employee benefits	14,746,558	11,249,944
Professional fees and services	8,970,515	8,324,522
Supplies and other	36,563,431	35,071,323
Purchased services	13,302,776	13,377,581
Other	8,890,776	8,901,659
Depreciation and amortization	10,758,762	11,351,520
Total operating expenses	158,225,296	150,302,717
Operating Income	9,336,398	13,638,812
Nonoperating Revenues (Expenses)		
Interest income	386,944	335,216
Noncapital grants and contributions received	72,455	87,435
Noncapital grants and contributions expensed	(47,817)	(74,547)
Loss from disposal of capital assets	(7,303)	(3,412)
Gain on sale of interest in joint venture	-	1,460,000
Income from joint venture	847,480	1,281,638
Total nonoperating revenues	1,251,759	3,086,330
Increase in Net Position	10,588,157	16,725,142
Net Position, Beginning of Year	321,836,986	305,111,844
Net Position, End of Year	$ 332,425,143	$ 321,836,986

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, 2015 and 2014

	2015	2014
Operating Activities		
Receipts from and on behalf of patients and third-party payors	$ 165,334,081	$ 162,054,709
Payments to suppliers and contractors	(69,141,041)	(66,485,334)
Payments to employees	(78,541,421)	(72,972,018)
Other receipts, net	4,208,837	4,748,565
Net cash provided by operating activities	21,860,456	27,345,922
Noncapital and Financing Activities		
Grants and contributions received	72,455	87,435
Grants and contributions expended	(47,817)	(74,547)
Net cash provided by noncapital and financing activities	24,638	12,888
Capital and Related Financing Activities		
Proceeds from the sale of capital assets	34,579	-
Purchase of capital assets	(40,090,980)	(20,538,742)
Net cash used in capital and related financing activities	(40,056,401)	(20,538,742)
Investing Activities		
Interest income	386,944	335,199
Distributions received from joint ventures	892,223	1,533,747
Proceeds from sale of interest in joint venture	-	1,700,000
Net sales of investments	9,659,696	(7,028,026)
Net cash provided by (used in) investing activities	10,938,863	(3,459,080)
Increase (Decrease) in Cash and Cash Equivalents	(7,232,444)	3,360,988
Cash and Cash Equivalents, Beginning of Year	18,066,739	14,705,751
Cash and Cash Equivalents, End of Year	$ 10,834,295	$ 18,066,739

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, 2015 and 2014

	2015	2014
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income	$ 9,336,398	$ 13,638,812
Depreciation and amortization	10,758,762	11,351,520
Loss on disposal of capital assets	7,303	3,412
Provision for uncollectible accounts	20,319,004	19,390,309
Changes in operating assets and liabilities		
Patient accounts receivable, net	(18,961,156)	(16,658,627)
Estimated amounts due from and to third-party payers	582,224	130,649
Accounts payable and accrued expenses	(45,677)	(593,284)
Other assets and liabilities	(136,402)	83,131
Net cash provided by operating activities	$ 21,860,456	$ 27,345,922
Supplemental Cash Flows Information		
Capital asset additions in accounts payable	$ 4,959,070	$ 1,101,778

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.

Cash and Cash Equivalents

The Medical Center considers all liquid investments with original maturities of three months or less to be cash equivalents excluding amounts restricted as to use by board designation.

Risk Management

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

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

Investments and Investment Income

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

Interest income represents all income on investments carried at fair value.

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.

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 fair 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. Assets under leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Medical Center:

Land improvements	10 - 25 years
Buildings and leasehold 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.

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, 2015 and 2014 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, 2015 and 2014. 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 $3,244,000 and $3,612,000 for the years then ended September 30, 2015 and 2014, 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.

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 2015 and 2014, the Medical Center recorded revenue from the Medicare program of approximately $960,000 and $1,500,000, respectively. In 2015 and 2014, the Medical Center recorded revenue from the Medicaid program of approximately $55,000 and $255,000, 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.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

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

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

- **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, 2010.

Approximately 44% and 43% respectively, of net patient service revenue is from participation in the Medicare and state sponsored Medicaid programs for the years ended September 30, 2015 and 2014. 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: 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, 2015, the Medical Center's deposits were either insured or collateralized in accordance with state law.

Summary of Carrying Values

The Medical Center holds the following deposits:

	2015	2014
Cash deposits, operating funds	$ 8,732,179	$ 15,968,823
Cash deposits, board designated funds	105,041,394	114,817,202
Certificates of deposits	2,125,000	2,125,000
Money market deposits, board designated funds	48,518,491	48,398,179
	$ 164,417,064	$ 181,309,204

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

	2015	2014
Cash and cash equivalents	$ 10,834,295	$ 18,066,739
Short-term investments	125,000	125,000
Designated assets by board for capital asset additions and replacements	153,457,769	163,117,465
	$ 164,417,064	$ 181,309,204

Note 4: 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, 2015 and 2014, consisted of:

	2015	2014
Medicare	$ 5,671,234	$ 4,175,202
Medicaid	950,352	509,352
Other thid-party payers	8,129,381	10,434,975
Patients	14,870,278	18,856,058
	29,621,245	33,975,587
Less allowance for uncollectible accounts	11,891,412	14,887,906
	$ 17,729,833	$ 19,087,681

Note 5: Capital Assets

Capital assets activity for the years ended September 30, 2015 and 2014, was:

	2015				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 7,736,002	$ -	$ -	$ -	$ 7,736,002
Land improvements	5,793,168	-	-	-	5,793,168
Buildings and leasehold 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	$ 129,693,411	$ 33,182,207	$ (41,882)	$ -	$ 162,833,736

	2014				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 7,736,002	$ -	$ -	$ -	$ 7,736,002
Land improvements	5,761,368	31,800	-	-	5,793,168
Buildings and leasehold improvements	142,146,806	408,758	-	656,410	143,211,974
Equipment	76,425,493	4,790,970	(3,628,952)	-	77,587,511
Construction in progress	4,750,560	15,429,604	(122,390)	(656,410)	19,401,364
	236,820,229	20,661,132	(3,751,342)	-	253,730,019
Less accumulated depreciation	(116,310,645)	(11,351,520)	3,625,557	-	(124,036,608)
Capital assets, net	$ 120,509,584	$ 9,309,612	$ (125,785)	$ -	$ 129,693,411

The Medical Center had approximately $16,253,000 in construction commitments outstanding as of September 30, 2015.

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at September 30, 2015 and 2014, consisted of:

	2015	2014
Payable to suppliers and contractors	$ 6,382,307	$ 3,806,144
Payable to employees (including payroll taxes and benefits)	7,142,696	6,801,723
Estimated self insurance costs (*Note 7*)	2,664,126	2,047,484
Net post-employment benefit obligation (*Note 9*)	957,750	717,750
Patient credit balances	675,426	637,589
	$ 17,822,305	$ 14,010,690

Note 7: 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 2015 and 2014 is summarized as follows:

	2015	2014
Balance, beginning of year	$ 767,750	$ 633,498
Current year claims incurred and changes in estimates for claims incurred in prior years	336,434	347,098
Claims and expenses paid	(421,552)	(212,846)
Balance, end of year	$ 682,632	$ 767,750

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 2015 and 2014, is summarized as follows:

	2015	2014
Balance, beginning of year	$ 1,279,734	$ 1,081,006
Current year claims incurred and changes in estimates for claims incurred in prior years	7,605,048	6,563,238
Claims and expenses paid	(6,903,288)	(6,364,510)
Balance, end of year	$ 1,981,494	$ 1,279,734

Note 8: 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, 2015 and 2014 totaled approximately $1,084,000 and $1,086,000, respectively.

Future minimum lease payments at September 30, 2015, were:

2016	$ 484,864
2017	237,936
2018	60,382
2019	57,182
2020	5,217
	$ 845,581

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 $1,280,000 and $1,276,000, respectively, for the years ended September 30, 2015 and 2014.

Minimum future rentals receivable under noncancellable operating leases at September 30, 2015, were:

2016	$ 628,189
2017	469,124
2018	462,712
2019	115,678
2020	-
	$ 1,675,703

Note 9: Postemployment Health Care Plan

Plan Description

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

Funding Policy

The contribution requirements of plan members and the Medical Center are established and may be amended by the board of commissioners of the Medical Center. The Medical Center is not required to make contributions to the plan on behalf of the retirees and funds the plan on a projected pay-as-you-go basis. Participants in the OPEB Plan contributed approximately $53,600 for both years ended September 30, 2015 and 2014, through required monthly contributions ranging from $531 to $1,728.

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 state's net OPEB obligation to the plan:

	2015	2014
Annual required contribution	$ 267,000	$ 207,000
Interest on net OPEB obligation	-	24,000
Adjustment to annual required contribution	-	(20,000)
Annual OPEB cost (expense)	267,000	211,000
Contributions made	(27,000)	(21,000)
Increase in net OPEB obligation	240,000	190,000
Net OPEB obligation - beginning of year	717,750	527,750
Net OPEB obligation - end of year	$ 957,750	$ 717,750

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2015 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, 2015	$ 267,000	10%	$ 957,750
September 30, 2014	$ 211,000	10%	$ 717,750
September 30, 2013	$ 151,000	15%	$ 527,750

Funded Status and Funding Progress

As of October 1, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was $1,340,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $1,340,000.

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, 2013, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.5% 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 9.0% initially, reduced by decrements to an ultimate rate of 5.0% after 8 years. Both rates included a 3.5% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at October 1, 2013 was 25 years.

Note 10: Retirement Plan

The Medical Center has an IRC Section 401(a) plan that provides that the Medical Center, at its option, may make contributions to the Plan based on a discretionary percentage of eligible employees' base compensation, as defined, as well as matching contributions. As of September 30, 2015 and 2014, the Medical Center's discretionary contribution percentages to both plans were calculated as 4% of eligible compensation for both years.

Employer contributions vest at 20% per year until they reach 100% at end of year five for both plans. Employee contributions are immediately vested.

Retirement contributions made by the Medical Center to both plans for the years ended September 30, 2015 and 2014 totaled approximately $1,668,000 and $1,533,000, respectively.

Note 11: Investment in Joint Venture

The Medical Center 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% and recognized a gain on sale of $1,460,000. Financial position and results of operations of the joint venture are summarized below:

	2015	2014
Current assets	$ 2,195,232	$ 2,121,619
Property and equipment	329,647	335,928
Total assets	$ 2,524,879	$ 2,457,547
Current liabilities	$ 174,356	$ 171,886
Long-term liabilities	178,555	147,483
Total liabilities	352,911	319,369
Members' captial	2,171,968	2,138,178
Total liabilities and capital	$ 2,524,879	$ 2,457,547
Net patient service revenue	$ 8,568,422	$ 8,130,165
Operating expenses	(5,591,564)	(5,311,248)
Net income	$ 2,976,858	$ 2,818,917

The carrying amount of the Medical Center's investment in the joint venture was $775,507 and $820,260 at September 30, 2015 and 2014, respectively.

Additionally, the Medical Center leases office space to Thibodaux Surgery Center, LLC under an operating lease with an original expiration date of November 30, 2015. The lease has renewal options upon expiration. The lease was extended for an additional 3 years subsequent to year end and has a new expiration date of December 31, 2018. Amounts received under the lease agreements for the years ended September 30, 2015 and 2014, totaled approximately $416,000 for both years.

Note 12: 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 7*.

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, 2015

Agency Head Name: **Greg Stock**

Purpose	Amount
Salary	$ 480,000
Benefits-insurance	15,344
Benefits-retirement	10,339
Vehicle provided by government	3,600
Business meals	1,612
Registration fees	1,345
Conference travel	8,562
	$ 520,802

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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 basic 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 balance sheet as of September 30, 2015 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 16, 2016.

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*.

We noted certain matters that we reported to the Medical Center's management in a separate letter dated March 16, 2016.

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 16, 2016

BKD LLP
CPAs & Advisors

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

In planning and performing our audit of the financial statements of Hospital Service District No. 3, a Component Unit of Lafourche Parish, State of Louisiana (d/b/a Thibodaux Regional Medical Center) (Medical Center) as of and for the year ended September 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Medical Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified.

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 of the Medical Center's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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.

We observed the following matter that we consider to be a deficiency:

During our search for unrecorded liabilities, we noted numerous exceptions in which invoices relating to services performed prior to the year-end date or capital received prior to year end were not recorded as payables in the proper period. Proper cutoffs are critical for the accuracy of the accrual basis of accounting. We suggest that management monitors invoices received subsequent to year end and capital equipment invoices that have yet to be approved to ensure that all invoices related to capital or services received prior to year end are appropriately accrued. Additionally, we recommend that all invoices are received directly by the Accounting Department to be recorded in the proper period.

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

BKD, LLP

March 16, 2016

THIBODAUX REGIONAL®
MEDICAL CENTER
Hospital Service District #3
Parish of Lafourche

March 16, 2016

Ms. Joy S. Irwin
Assistant 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
September 30, 2015 Financial Statement Audit Comments Action Plan

Dear Ms. Irwin:

Please find below our corrective action plan for the Management Letter deficiency that was a component of our September 30, 2015 financial statement audit.

Management Letter Comment – Accounts Payable Cutoff

In response to the recommendation of recording payables in the proper period in which the capital was received or services were performed, Thibodaux Regional Medical Center has made the following improvements to our current process.

The Accounting Department staff, led by Bonnie Loker, Assistant Chief Financial Officer, will review, by department, potential expenses that have occurred in the previous month but have not been invoiced. We will also actively request vendors to mail invoices directly to the Accounting Department. We will communicate regularly with department directors regarding capital items received and expenses/services incurred but not yet invoiced, and review a specific custom report that captures vendor, department, invoice date, amount paid for service dates prior to the monthly general ledger close date.

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

Sincerely,

Steve Gaubert

Steve Gaubert
Chief Financial Officer