ST. TAMMANY PARISH HOSPITAL
SERVICE DISTRICT NO. 1 d/b/a
ST. TAMMANY HEALTH SYSTEM
(FORMERLY KNOWN AS ST. TAMMANY PARISH HOSPITAL)

Financial Report
December 31, 2019 and 2018

LAPORTE
CPAs & BUSINESS ADVISORS

Contents

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a ST. TAMMANY HEALTH SYSTEM)

Management's Discussion and Analysis

This section of St. Tammany Parish Hospital Service District No. 1's (the System) annual financial report presents background information and our analysis of the System's financial performance during the fiscal year that ended on December 31, 2019. Please read it in conjunction with the financial statements in this report.

Overview of the Financial Statements

The financial statements contain the accounts of St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (a nonprofit corporation organized by the St. Tammany Parish Police Jury under provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950). The governing authority of St. Tammany Parish Hospital Service District No. 1 is the St. Tammany Parish Hospital Board of Commissioners. The St. Tammany Parish Council appoints members of the System's Board of Commissioners.

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, St. Tammany Hospital Foundation (the Foundation) is presented as a discretely presented component unit on separate pages of the System's financial statements to emphasize that it is legally separate from the System. The Foundation is a not-for-profit organization supporting the System through fund raising. The Foundation is not included in the Management's Discussion and Analysis section but is included in greater detail in the financial statements and footnotes. In addition, St. Tammany Medical Services (STMS), Practice Management Consultants (PMC), St. Tammany Quality Network (STQN), and St. Tammany Physician Network (STPN) are presented as blended entity component units whose financial activity is included with the activities of the System. In 2017, the System created the St. Tammany Hospital Accountable Care Organization, L.L.C. (STH-ACO), of which the System is the sole member. Once there is activity, STH-ACO will be presented as a blended component unit.

This annual report consists of three components - the Management's Discussion and Analysis of Financial Condition and Operating Results (this section), the Independent Auditor's Report, and the Financial Statements. The Financial Statements report the financial position of the System and the results of its operations and its cash flows. The financial statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about the System's activities.

The Statements of Net Position include the System's assets and deferred outflows and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the System's creditors (liabilities) for both the current year and the prior year. It also provides the basis for evaluating the capital structure of the System and assessing the liquidity and financial flexibility of the System.

The current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position. This statement measures the performance of the System's operations over the past two years and can be used to determine whether the System has been able to recover all of its costs through its patient service revenue and other revenue sources.

The primary purpose of the Statements of Cash Flows is to provide information about the System's cash from operations, investing, and financing activities. The cash flow statements outline where the cash comes from, what the cash is used for, and the change in the cash balance during the reporting period.

The annual report also includes Notes to the Financial Statements that are essential to gain a full understanding of the data provided in the Financial Statements. The Notes to the Financial Statements can be found immediately following the basic financial statements in this report.

Financial Highlights

The System's change in net position was approximately $36.8 million in 2019 and $36.3 million in 2018. Net Position showed an increase of 11.4% in 2019 and 12.8% in 2018.

The assets and deferred outflows of resources of the System exceeded liabilities at the close of the 2019 fiscal year by $358.2 million. Of that amount, $216.3 million (unrestricted net position) was available to meet ongoing obligations to the System District's patients and creditors, $3.3 million was restricted for debt service and self-insured funding arrangements, $53.8 million was restricted for capital projects and $84.8 million was the System's net investment in capital assets.

The assets and deferred outflows of resources of the System exceeded liabilities at the close of the 2018 fiscal year by $321.5 million. Of that amount, $169.8 million (unrestricted net position) was available to meet ongoing obligations to the Hospital District's patients and creditors, $2.6 million was restricted for debt service and self-insured funding arrangements, $73.4 million was restricted for capital projects and $75.7 million was the System's net investment in capital assets.

In 2019, net patient service revenue increased by $22.6 million, or 6.9%, from 2018. In 2018, net patient service revenue increased by $37.4 million, or 12.9%, from 2017. Operating expenses increased by $26.6 million, or 8.8%, in 2019, and $20.3 million, or 7.2%, in 2018. Other operating revenue increased by $1.9 million from 2018 to 2019 and decreased by $4.1 million from 2017 to 2018. In total, the System experienced an increase in the change in net position by approximately $423,000, in excess over the fiscal year 2018 operations.

Financial Analysis of the System

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the System's activities. These two statements report the net position of the System and changes in them. Increases or improvements, as well as decreases or declines in the net position, are indicators of the financial state of the System. Other non-financial factors that should also be considered include changes in economic conditions, population growth (including uninsured and working poor), and new or changed government legislation.

Net Position

A summary of the System's Statements of Net Position is presented in the following table:

	December 31,		
	2019	2018	2017
	(Dollars in Thousands)		
Assets			
Current and other assets	**$ 375,930**	$ 356,495	$ 281,881
Capital assets	**159,669**	134,118	128,329
Total assets	**535,599**	490,613	410,210
Deferred outflows of resources	**315**	522	354
Total assets and deferred outflows	**$ 535,914**	$ 491,135	$ 410,564
Liabilities			
Long-term debt outstanding	**$ 129,013**	$ 132,294	$ 94,656
Other liabilities	**48,687**	37,390	30,797
Total liabilities	**177,700**	169,684	125,453
Net position			
Net investment in capital assets	**84,770**	75,715	61,195
Restricted	**57,149**	75,926	40,517
Unrestricted	**216,295**	169,810	183,399
Total net position	**358,214**	321,451	285,111
Total liabilities and net position	**$ 535,914**	$ 491,135	$ 410,564

Summary of Revenues, Expenses, and Changes in Net Position

The following table presents a summary version of the System's historical revenues and expenses for the years ended December 31, 2019, 2018, and 2017:

	Years Ended December 31,		
	2019	2018	2017
	(Dollars in Thousands)		
Operating revenue			
Net patient service revenue net of provision for bad debts of $24,441 in 2019, $15,369 in 2018, and $15,655 in 2017	**$ 349,842**	$ 327,244	$ 289,829
Other operating revenue	**14,542**	12,669	16,741
Total operating revenue	**364,384**	339,913	306,570
Operating expenses			
Maintenance and operation expenses	**315,625**	289,239	267,961
Depreciation	**13,880**	13,712	14,740
Total operating expenses	**329,505**	302,951	282,701
Operating net income	**34,879**	36,962	23,869
Investment income and gains and losses, net	**7,634**	3,504	1,728
Interest expense	**(4,628)**	(4,268)	(2,649)
Equity in net loss of joint ventures	**(1,270)**	-	-
Gain (loss) on disposal of capital assets	**7**	9	(48)
Excess of revenues over expenses before capital contributions	**36,622**	36,207	22,900
Capital contributions	**141**	133	152
Change in net position	**36,763**	36,340	23,052
Total net position - beginning of year	**321,451**	285,111	262,059
Total net position - end of year	**$ 358,214**	$ 321,451	$ 285,111

Management's Discussion and Analysis

The information below summarizes the System's basic Statements of Revenues, Expenses, and Changes in Net Position for 2019 and 2018:

Operating Revenue

During fiscal year 2019 and 2018, the System derived approximately 96.0% and 96.3%, respectively, of its total operating revenues from Net Patient Service Revenues. Net Patient Service Revenues include revenues from the Medicare and Medicaid programs, patients, or their third-party carriers who pay for care in the System's facilities.

The following table represents the relative percentage of gross charges billed for patient services by payor for the fiscal years ended December 31, 2019 and 2018:

	December 31,	
	2019	2018
Medicare	**26%**	26%
Medicaid	**14%**	14%
Managed Care and Commercial Insurance	**59%**	59%
Self-Pay	**1%**	1%
Total gross charges	**100%**	100%

Operating and Financial Performance

The highlights of the System's Statements of Revenues, Expenses, and Changes in Net Position from 2018 to 2019 include:

- During 2019, the System had patient days and admissions of 52,263 and 11,784, respectively. During 2018, the System had patient days and admissions of 53,653 and 12,075, respectively. This is a decrease in patient days of 2.6% and 2.4% in admissions from fiscal year 2018.
- Observation patient volume decreased 106 patients, or 1.8%, in 2019. Net "Bedded Patients" (inpatient plus observation) went from 18,033 in 2018 to 17,636 in 2019, or a "Bedded Patient" decrease of 397 admissions.
- Outpatient visits (including Home Health, Hospice, and Physicians) were 445,397. This is an increase of 7.1% from prior year.
- Emergency room visits were 57,721, an increase of 7.0% from fiscal year 2018.
- Net patient service revenue increased $22.6 million, or 6.9%, in 2019.
- Employee compensation increased $9.8 million, an increase of 6.0%.
- Supplies and other professional services increased approximately 14.2%.

The highlights of the System's Statements of Revenues, Expenses, and Changes in Net Position from 2017 to 2018 include:

- During 2018, the System had patient days and admissions of 53,653 and 12,075, respectively. During 2017, the System had patient days and admissions of 52,883 and 11,955, respectively. This is an increase in patient days of 1.5% and 1.0% in admissions from fiscal year 2017.
- Observation patient volume increased 877 patients, or 17.3%, in 2018. Net "Bedded Patients" (inpatient plus observation) went from 17,036 in 2017 to 18,033 in 2018, or a "Bedded Patient" increase of 997 admissions.
- Outpatient visits (including Home Health, Hospice, and Physicians) were 415,760. This is an increase of 9.8% from prior year.
- Emergency room visits were 53,963, an increase of 13.0% from fiscal year 2017.
- Net patient service revenue increased $37.4 million, or 12.9%, in 2018.
- Employee compensation increased $9.4 million, an increase of 6.1%.
- Supplies and other professional services increased approximately 10.5%.

2019 Budget to Actual Comparison (in Thousands)

In comparing actual results of operations versus budgeted 2019 results, the following is noted:

	For the Year Ended December 31,		Variance
	Budget 2019	Actual 2019	Positive (Negative)
Operating revenues			
Net patient service revenue net of provision for bad debts of $15,448 budget and $24,441 actual	$ 332,670	$ 349,842	$ 17,172
Other operating revenue	12,107	14,542	2,435
Total revenues	344,777	364,384	19,607
Operating expenses			
Salaries, wages, and benefits	170,315	173,502	(3,187)
Supplies and other	104,631	119,002	(14,371)
Professional and contractual services	22,202	23,121	(919)
Depreciation	13,963	13,880	83
Total operating expenses	311,111	329,505	(18,394)
Non-operating income (expenses), net	(1,201)	1,743	2,944
Excess of revenues over expenses	$ 32,465	$ 36,622	$ 4,157

The System's Cash Flows

Changes in the System's cash flows as illustrated in the Statements of Cash Flows appearing on pages 6 and 7 are generally consistent with changes in operating gains and non-operating revenues and expenses, as discussed earlier. Overall, cash and cash equivalents increased in 2019.

Capital Assets

The table below details the changes in the System's capital assets during the year ended December 31, 2019:

Capital Assets (in Thousands)

	December 31,		Dollar	Percent
	2019	2018	Change	Change
Land and improvements	**$ 14,939**	$ 10,713	$ 4,226	39%
Buildings	**143,601**	136,450	7,151	5%
Equipment	**133,062**	130,425	2,637	2%
Construction in progress	**30,256**	9,472	20,784	219%
Subtotal	**321,858**	287,060	34,798	12%
Less: accumulated depreciation and amortization	**(162,189)**	(152,942)	(9,247)	6%
Capital Assets, net	**$ 159,669**	$ 134,118	$ 25,551	19%

- Net Capital Assets increased by approximately $25.6 million during 2019. Expenditures of $7.1 million are related to expansion and enhancement projects of the physical buildings. Expenditures of $2.6 million are related to replacement of routine equipment and enhancement of information systems. Expenditures of $20.8 million are related to the parking lot expansion, the master facility expansion, the neuro ICU, and the pharmacy renovations.

- Net Capital Assets increased by approximately $5.8 million during 2018. Expenditures of $1.4 million are related to expansion and enhancement projects of the physical buildings. Expenditures of $5.6 million are related to replacement of routine equipment and enhancement of information systems. Expenditures of $6.0 million are related to the beginning of projects for the parking lot expansion, the master facility expansion, the neuro ICU, and the pharmacy renovations.

Projected Capital Expenditures for FY 2019

The System projects spending $69.5 million on capital projects during FY 2019. Of this amount, $29.2 million will be funded from the bonds issued in 2018, for a hospital expansion. The expansion will include a new Tower consisting of additional surgical rooms and patient beds.

Debt Administration

2019 Long-Term Debt

At year-end, the System had $129.0 million in long-term debt. Total long-term debt represents 72.6% of the System's total liabilities as of year-end.

2018 Long-Term Debt

During 2018, the System issued bonds in the amount of $84.9 million. This issuance refunded existing bonds in the amount of $42.0 million, as well as provided additional funds for construction of a new Bed Tower and Surgical Suites. The new Tower will expand critical care and med-surg capacity, as well as provide three additional surgical suites. At year-end, the System had $132.3 million in long-term debt. Total long-term debt represents 80.0% of the System's total liabilities as of year-end.

Economic Factors and Next Year's Budget

The System's Board and Management considered many factors when setting the fiscal year 2020 budget. Of primary importance in setting the 2019 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare reimbursement changes and reductions
- Medicaid expansion
- Cost of supplies
- Cost of drugs

Contacting the System Financial Manager

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the System's finances. If you have any questions about this report or need additional financial information, please contact the Chief Financial Officer, St. Tammany Health System, 1202 S. Tyler Street, Covington, LA 70433.

LaPorte
CPAs & BUSINESS ADVISORS

LaPorte, APAC
111 Veterans Blvd. | Suite 600
Metairie, LA 70005
504.835.5522 | Fax 504.835.5535
LaPorte.com

Independent Auditor's Report

To the Board of Commissioners
St. Tammany Parish Hospital Service District No. 1
St. Tammany Parish, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (St. Tammany Health System) as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise St. Tammany Health System'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 fee from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the St. Tammany Parish Hospital Foundation were not audited in accordance with *Government Auditing Standards*.

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 opinions.

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of St. Tammany Health System as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through viii 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 Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2020, on our consideration of St. Tammany Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of St. Tammany Health System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering St. Tammany Health System's internal control over financial reporting and compliance.

LaPorte

A Professional Accounting Corporation

Metairie, LA
April 28, 2020

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a ST. TAMMANY HEALTH SYSTEM)
Statements of Net Position
December 31, 2019 and 2018 (In Thousands)

Assets and deferred outflows of resources	2019	2018
Current assets		
Cash and cash equivalents	$ 54,517	$ 74,228
Investments	205,462	151,023
Noncurrent cash and investments required for current liabilities	21,717	16,159
Patient accounts receivable, net of allowance for doubtful accounts of $9,925 in 2019 and $18,045 in 2018	40,752	38,414
Inventories	6,969	7,148
Prepaid expenses and other receivables	5,916	4,657
Total current assets	335,333	291,629
Noncurrent cash and investments		
Held by trustee under Construction Fund	53,799	73,369
Held by trustee under bond indenture	2,642	1,738
Held by trustee under bond ordinances	9	9
Designated by board for capital improvements and facility enhancements	3,000	3,000
Designated by board for Community ER Services	1,086	1,071
Held by others for self-insured funding arrangements	700	810
	61,236	79,997
Less: noncurrent cash and investments required for current liabilities	(21,717)	(16,159)
Total noncurrent cash and investments	39,519	63,838
Capital assets		
Land and improvements	14,939	10,713
Buildings	143,601	136,450
Equipment	133,062	130,425
Construction in progress	30,256	9,472
Less: accumulated depreciation	(162,189)	(152,942)
Total capital assets, net	159,669	134,118
Other assets	1,078	1,028
Total assets	535,599	490,613
Deferred outflows of resources		
Loss on advance refunding, net of accumulated amortization of $2,268 and $2,061 , respectively	315	522
Total assets and deferred outflows of resources	$ 535,914	$ 491,135

The accompanying notes are an integral part of these financial statements.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a ST. TAMMANY HEALTH SYSTEM)
Statements of Net Position (Continued)
December 31, 2019 and 2018 (In Thousands)

Liabilities and net position	**2019**	2018
Current liabilities		
Accounts payable and accrued expenses	**$ 30,899**	$ 19,756
Accrued employee compensation	**9,551**	7,503
Accrued vacation	**4,685**	4,747
Settlements due to Medicare and Medicaid intermediaries	**3,552**	5,384
Amounts due within one year on long-term debt	**3,370**	3,281
Total current liabilities	**52,057**	40,671
Long-term debt, net of current maturities	**125,643**	129,013
Total liabilities	**177,700**	169,684
Net position		
Net investment in capital assets	**84,770**	75,715
Restricted for debt service	**2,650**	1,747
Restricted for capital projects	**53,799**	73,369
Restricted for self-insured funding arrangements	**700**	810
Unrestricted	**216,295**	169,810
Total net position	**358,214**	321,451
Total liabilities and net position	**$ 535,914**	$ 491,135

The accompanying notes are an integral part of these financial statements.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a ST. TAMMANY HEALTH SYSTEM)
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2019 and 2018 (In Thousands)

	2019	2018
Operating revenues		
Net patient service revenue, net of provision for bad debts of $24,441 in 2019 and $15,369 in 2018	$ 349,842	$ 327,244
Other revenue	14,542	12,669
Total operating revenues	364,384	339,913
Operating expenses		
Salaries, wages, and benefits	173,502	163,725
Supplies and other	119,002	102,757
Professional and contractual services	23,121	22,757
Depreciation	13,880	13,712
Total operating expenses	329,505	302,951
Income from operations	34,879	36,962
Non-operating revenues (expenses)		
Investment income and gains and losses, net	7,634	3,504
Interest expense	(4,628)	(4,268)
Equity in net loss of joint ventures	(1,270)	-
Gain on disposal of capital assets	7	9
Total non-operating expenses, net	1,743	(755)
Excess of revenues over expenses before capital contributions	36,622	36,207
Capital contributions	141	133
Change in net position	36,763	36,340
Net position, beginning of year	321,451	285,111
Net position, end of year	$ 358,214	$ 321,451

The accompanying notes are an integral part of these financial statements.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a ST. TAMMANY HEALTH SYSTEM)
Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018 (In Thousands)

	2019	2018
Cash flows from operating activities		
Cash received from patient services	$ 360,214	$ 329,628
Cash paid to or on behalf of employees	(171,666)	(163,666)
Cash paid for supplies and services	(133,023)	(115,777)
Net cash provided by operating activities	55,525	50,185
Cash flows from capital and related financing activities		
Capital contributions	141	133
Purchase of capital assets	(39,424)	(19,492)
Proceeds from issuance of debt	-	88,798
Principal payments on long-term debt	(3,281)	(51,160)
Interest payments	(4,628)	(4,268)
Net cash (used in) provided by capital and related financing activities	(47,192)	14,011
Cash flows from investing activities		
Purchases of investments and noncurrent cash equivalents	(35,678)	(46,097)
Investment interest received	7,634	3,504
Net cash used in investing activities	(28,044)	(42,593)
(Decrease) increase in cash and cash equivalents	(19,711)	21,603
Cash and cash equivalents, beginning of year	74,228	52,625
Cash and cash equivalents, end of year	$ 54,517	$ 74,228

The accompanying notes are an integral part of these financial statements.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a ST. TAMMANY HEALTH SYSTEM)
Statements of Cash Flows (Continued)
For the Years Ended December 31, 2019 and 2018 (In Thousands)

	2019	2018
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	**$ 34,879**	$ 36,962
Adjustments to reconcile income from operations to net cash provided by operating activities		
Provision for bad debts	**24,441**	15,369
Depreciation	**13,880**	13,712
Amortization of deferred loss on advance refunding	**207**	223
Changes in operating assets and liabilities		
Patient accounts receivable	**(26,779)**	(24,795)
Inventories, prepaid expenses, and other receivables	**(1,080)**	2,749
Other assets	**(1,320)**	(628)
Accounts payable and accrued expenses	**11,143**	7,462
Accrued employee compensation and vacation	**1,986**	(10)
Net settlements due to Medicare and Medicaid intermediaries	**(1,832)**	(859)
Net cash provided by operating activities	**$ 55,525**	$ 50,185

The accompanying notes are an integral part of these financial statements.

ST. TAMMANY HOSPITAL FOUNDATION
A Discretely Presented Component Unit of
St. Tammany Parish Hospital Service District No. 1
Statements of Financial Position
December 31, 2019 and 2018

		2019		2018
Assets				
Cash and cash equivalents	**$**	**1,386,330**	$	1,016,843
Certificates of deposit		**5,033,182**		4,906,795
Interest receivable		**19,821**		20,447
Pledges receivable, net of allowance of $5,402 and $5,752, as of December 31, 2019 and 2018, respectively		**354,729**		415,668
Other receivable		**212**		1,952
Other assets		**96,242**		88,440
Restricted cash - donor endowment funds		**249,152**		243,037
Total assets	**$**	**7,139,668**	$	6,693,182
Liabilities and net assets				
Liabilities				
Annuities payable	**$**	**56,854**	$	58,519
Total liabilities		**56,854**		58,519
Net assets				
Without donor restrictions				
Undesignated		**247,778**		127,349
Board designated-endowment		**2,738,758**		2,675,788
With donor restrictions				
Designated by donors		**3,858,026**		3,598,396
Designated by the board for endowment		**238,252**		233,130
Total net assets		**7,082,814**		6,634,663
Total liabilities and net assets	**$**	**7,139,668**	$	6,693,182

The accompanying notes are an integral part of these financial statements.

ST. TAMMANY HOSPITAL FOUNDATION
A Discretely Presented Component Unit of
St. Tammany Parish Hospital Service District No. 1
Statement of Activities
For the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Contributions	$ 51,968	$ 823,449	$ 875,417
Change in provision for uncollectible pledges	(261)	-	(261)
Investment return, net	260,966	-	260,966
Change in value of split-interest agreements	(2,667)	(3,142)	(5,809)
Net assets released from restrictions	555,555	(555,555)	-
Total revenues, gains, and other support	865,561	264,752	1,130,313
Expenses			
Program services			
Contributions awarded/distributed	682,162	-	682,162
Total expenses	682,162	-	682,162
Change in net assets	183,399	264,752	448,151
Net assets, beginning of year	2,803,137	3,831,526	6,634,663
Net assets, end of year	$ 2,986,536	$ 4,096,278	$ 7,082,814

The accompanying notes are an integral part of these financial statements.

ST. TAMMANY HOSPITAL FOUNDATION
A Discretely Presented Component Unit of
St. Tammany Parish Hospital Service District No. 1
Statement of Activities
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Contributions	$ 122,916	$ 912,177	$ 1,035,093
Change in provision for uncollectible pledges	(650)	-	(650)
Investment return, net	25,117	-	25,117
Change in value of split-interest agreements	(2,063)	(6,586)	(8,649)
Net assets released from restrictions	985,969	(985,969)	-
Total revenues, gains, and other support	1,131,289	(80,378)	1,050,911
Expenses			
Program services			
Contributions awarded/distributed	772,800	-	772,800
Total expenses	772,800	-	772,800
Change in net assets	358,489	(80,378)	278,111
Net assets, beginning of year	2,444,648	3,911,904	6,356,552
Net assets, end of year	$ 2,803,137	$ 3,831,526	$ 6,634,663

The accompanying notes are an integral part of these financial statements.

ST. TAMMANY HOSPITAL FOUNDATION
A Discretely Presented Component Unit of
St. Tammany Parish Hospital Service District No. 1
Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ 448,151	$ 278,111
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for uncollectible pledges	261	650
Unrealized and realized (gains) losses, net	(126,440)	1,519
(Increase) decrease in:		
Pledges receivable	60,678	(5,778)
Interest receivable	626	(19,853)
Other receivables	1,740	(1,429)
Other Assets	(7,802)	-
Assets held in charitable remainder trusts	-	187,871
Increase (decrease) in:		
Change in present value of gift annuities	5,809	8,649
Net cash provided by operating activities	383,023	449,740
Cash flows from investing activities		
Proceeds from sale of investments	25,967	114,234
Purchases of Investment Securities	(7,865)	-
Net increase in certificates of deposit	(18,049)	(4,430,194)
Net cash provided by (used in) investing activities	53	(4,315,960)
Cash flows from financing activities		
Beneficiary distributions for gift annuities	(7,474)	(33,336)
Increase in cash restricted for donor endowment funds	(6,115)	(5,959)
Net cash used in financing activities	(13,589)	(39,295)
Net increase (decrease) in cash and cash equivalents	369,487	(3,905,515)
Cash and cash equivalents, beginning of year	1,016,843	4,922,358
Cash and cash equivalents, end of year	$ 1,386,330	$ 1,016,843

The accompanying notes are an integral part of these financial statements.

Note 1. Organization and Significant Accounting Policies

Nature of Business:

St. Tammany Health System (the System) is owned and operated by St. Tammany Parish Hospital Service District No. 1 (the District) of St. Tammany Parish, Louisiana (a nonprofit corporation organized by the St. Tammany Parish Police Jury under provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950). The System is exempt from Federal income taxes under Section 115 of the Internal Revenue Code. The governing authority of the District is the St. Tammany Health System Board of Commissioners. The St. Tammany Parish Council appoints members of the System's Board of Commissioners.

The financial statements of the District include the System and the following blended component units: St. Tammany Medical Services (STMS), Practice Management Consultants (PMC), St. Tammany Quality Network (STQN), and St. Tammany Physician Network (STPN). STMS, PMC, STQN, and STPN are corporations, which are wholly- owned by the System. STMS, PMC, STQN, and STPN are not exempt from Federal taxation. No income taxes were paid or owed for the years ended December 31, 2019 and 2018, by STMS, PMC, STQN, or STPN. The System and its blended component units provide primary and secondary health care services through the operation of an acute care hospital, clinics, and other comprehensive health care programs. Patients are primarily from St. Tammany Parish.

STMS formed in 1986 to own and lease medical facilities and equipment.

PMC was formed in 2010 to provide a variety of management services to physicians.

STQN was formed January 10, 2013. The Operating Agreement of STQN provides that: (i) STQN was formed to clinically integrate with the System to provide quality, cost effective healthcare to the area and community that the Company and the System serve; (ii) the System has joined STQN as a Class B member; and, (iii) the System's capital contribution is $50,000; however, the System is obligated to fund all costs associated with starting up the STQN.

STPN was formed in 1993 to employ primary care physicians. STPN provides billing and administrative services for the employed physicians. STPN has been dissolved effective December 31, 2019.

See Note 16 for further discussion on the financials of each blended component unit.

Note 1. Organization and Significant Accounting Policies (Continued)

On May 22, 2017, the St. Tammany Hospital Accountable Care Organization, L.L.C (STH-ACO) was formed which is wholly-owned by the System. The object and purpose of STH-ACO shall be to promote evidence-based medicine, promote patient engagement, identify, and report on quality and cost measures, and provide clinically integrated services with select healthcare providers in order to provide and promote high quality, cost-effective, coordinated healthcare to the area and community. There was no activity during fiscal years ended December 31, 2019 and 2018. Once there is activity, STH-ACO will be presented as a blended component unit, whose financial activity is included with the activities of the System.

St. Tammany Parish Hospital Foundation (the Foundation) is a legally separate, tax exempt, discretely presented component unit of the District. The Foundation was formed to, among other things, sustain the healing work of the physicians and staff of the System. The Board of the Foundation is self-perpetuating and consists primarily of citizens of St. Tammany Parish. Although the System does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds are contributed to the System. Because these resources held by the Foundation have historically been for the benefit of the System and these resources have grown in significance, the Foundation is considered a component unit of the District and is discretely presented in these financial statements. Individual financial statements can be obtained from the Foundation's office at 1202 South Tyler Street Covington, LA 70433. See Note 13 for further details.

During May of 2019, the System entered into an agreement with Labtrust, LLC to establish a new entity, St. Tammany Toxicology Laboratory Services, LLC (Lab Services), that will provide toxicology laboratory services at a facility in Covington, Louisiana. The System obtained 51% ownership percentage in exchange for an initial investment of $51,000. The System does not appoint the voting majority of Lab Services' Board of Directors and Lab Services does not have a specific financial benefit or burden to the System. Through December 31, 2019, Lab Services has not had significant operating activities.

Effective December 1, 2019, the System changed its corporate identity, the name under which it operates, from St. Tammany Parish Hospital to St. Tammany Health System. The change in branding did not affect its legal name.

Significant Accounting Policies:

<u>Basis of Presentation:</u> The financial statements include all funds of the above-mentioned entities. The System does not have any other component units, agencies, or organizations for which it is financially accountable under criteria set forth by the Governmental Accounting Standards Board (GASB), other than the Foundation which is discretely presented in these financial statements.

The Foundation reports information regarding its financial position and activities based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows: net assets without donor restrictions, and net assets with donor restrictions.

Note 1. Organization and Significant Accounting Policies (Continued)

Accounting Standards: The System follows GASB statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements*. GASB No. 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: *FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure.*

The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Accounting Standards Codification 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation feature modifications are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the System's financial reporting entity for these differences.

Accounting Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from those estimates. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in estimates and assumptions in the near-term would be material to the financial statements. Estimates that are particularly susceptible to significant changes in the near term and which require significant judgments by management include the allowances for doubtful accounts and contractual adjustments, third-party payor settlements, liabilities for self-insurance, and the depreciable lives of property and equipment.

Cash and Cash Equivalents: Cash and cash equivalents include investments in highly liquid debt instruments, certificates of deposit, and money market accounts with an original maturity of three months or less when purchased and exclude amounts whose use is limited by board designation or under bond requirements.

Investments: Investments include investments in certificates of deposit, U.S. Government and federal agency securities, and external investment pools and are stated at fair market value. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned.

Inventories: Inventories are valued at the most recent invoice price. This method approximates the lower of cost (first-in, first-out method) or market.

Note 1. Organization and Significant Accounting Policies (Continued)

Prepaid Expenses: Payments made to vendors for services that will benefit periods beyond the date of this report are recorded as prepaid expenses and are accounted for on the consumption method.

Capital Assets: The System's capitalization policy requires the recordation at acquisition cost (or fair value at the date of donation, if donated) of individual long-lived assets in excess of $1,000. The policy provides for depreciation using the straight-line method in amounts sufficient to amortize the cost of its assets over their estimated useful lives. Estimated useful lives for buildings are 15 to 40 years, and 3 to 25 years for equipment.

Deferred Outflow of Resources - Unamortized Loss on Advance Refunding: In prior years, the System incurred losses in connection with the advance refunding of the System's revenue bonds which have been deferred and are being amortized over the life of the refunded bond issue. Accumulated amortization on this deferred loss was approximately $2,268,000 and $2,061,000 at December 31, 2019 and 2018, respectively. The amortization is included in interest expense on the Statement of Revenues, Expenses, and Changes in Net Position.

Net Position: In accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended,* net position is classified into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets: This component of net position consists of the historical cost of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

Restricted: This component of net position consists of assets that have constraints that are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted: All other net position is reported in this category.

Operating Revenues and Expenses: The System's Statements of Revenues, Expenses, and Changes in Net Position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the System's principal activity. Non-exchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Note 1. Organization and Significant Accounting Policies (Continued)

Net Patient Service Revenue and Related Receivables: Net patient service revenue and the related accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. The System provides care to patients even though they may lack adequate insurance or may be covered under contractual arrangements that do not pay full charges. As a result, the System is exposed to certain credit risk. The System manages such risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances.

Patient Receivables: Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the services provided, less an estimate made for contractual adjustments or discounts provided to third-party payors, less an estimated allowance for doubtful accounts.

Patient receivables due directly from the patients, net of any third-party payor responsibility, are carried at the original charge for the service provided less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The System does not charge interest on patient receivables. Patient receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received. Provision for bad debts was approximately $24,441,000 and $15,369,000 for the years ended December 31, 2019 and 2018, respectively.

Medicare and Medicaid Reimbursement Programs: The System is reimbursed under the Medicare Prospective Payment System (PPS) for acute care inpatient services provided to Medicare beneficiaries and is paid a predetermined amount for these services based, for the most part, on the MS-Diagnosis Related Group (MS-DRG) assigned to level of patient care.

Home health services rendered to Medicare beneficiaries are reimbursed under a per-episode prospective payment system. Outpatient services rendered to Medicare beneficiaries are reimbursed by the Outpatient Prospective Payment System (OPPS), which establishes a number of Ambulatory Payment Classifications (APC) for outpatient procedures in which the System is paid a predetermined amount per procedure.

During 2013, the State outsourced part of the Medicaid program to third parties. The System entered into contracts with the various Managed Medicaid providers. These contracts reimburse the System using the same methodology of the State-run program. In all cases, the System is paid a prospective per diem rate for Medicaid and Managed Medicaid inpatients. The per diem rate is based on a peer grouping methodology, which assigns a per diem rate to each hospital in the peer group.

Medicaid outpatient services are reimbursed based on cost reimbursement and fee schedule limitations. The cost-based rates are subject to retroactive adjustments. Both Medicare and Medicaid outpatient clinical lab and Medicaid ambulatory surgery services are reimbursed based upon the respective fee schedules.

Note 1. Organization and Significant Accounting Policies (Continued)

Medicare and Medicaid Reimbursement Programs: (Continued)

Retroactive cost settlements based upon annual cost reports are estimated for those programs subject to retroactive settlement and recorded in the financial statements. Final determination of retroactive cost settlements to be received under the Medicare and Medicaid regulations is subject to review by program representatives. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in a future period as final settlements are determined or determinable. Adjustments to estimated settlements resulted in an increase to net patient service revenue of approximately $2,508,000 and $2,133,000 in 2019 and 2018, respectively.

Participation in Medicare's BPCIA Program: During 2018, the System began its participation in CMS Bundled Payments for Care Improvement Advanced Model (BPCIA). CMS established the BPCIA with the objective to improve the quality of care through better care management, eliminating unnecessary care, and reducing post-discharge Emergency Department visits and readmissions, as well as to reduce costs by providing a single bundled payment to healthcare providers for items and services furnished during an episode of care.

Participation in Medicare's Managed Care Incentive Program (MCIP): During 2019, the System began participation in the state's MCIP program. The MCIP program is designed to provide incentive payments to Medicaid MCOs for achieving quality reforms that increase access to health care, improve the quality of care, and/or enhance the health of members the MCOs serve. The System received $1,283,000 under this program, which is included in net patient service revenue.

Grants and Contributions: From time to time, the System receives grants from the State of Louisiana, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Grants unrestricted as to their use or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported as capital contributions on the Statement of Revenues, Expenses, and Changes in Net Position.

The Foundation reports contributed support either as increases in net assets without donor restrictions or as increases in net assets with donor restrictions.

Foundation contributions that are restricted by the donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions.

When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Note 1. Organization and Significant Accounting Policies (Continued)

Donated Assets: Donated marketable securities and other noncash donations are recorded as contributions at their fair value at the date of donation.

Restricted Resources: When the System has both restricted and unrestricted resources available to finance a particular program, it is the System's policy to use restricted resources before unrestricted resources.

Charity Care: The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The System maintains records to identify and monitor the level of charity care it provides to all of its qualifying patients. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The System provided charity care of approximately $5,359,000 and $4,925,000 for the years ended December 31, 2019 and 2018, respectively, based upon charges foregone using established rates.

Employee Health and Workers' Compensation Insurance: The System is self-insured for hospitalization and workers' compensation claims. Estimated amounts for claims incurred but not reported are calculated based on claims experience and, together with unpaid claims, are included in Accrued employee compensation and Accounts payable and accrued expenses, respectively, on the Statements of Net Position.

Reclassifications: Certain reclassifications have been made to prior year balances to conform to the current year presentation.

Recently Issued Accounting Principles Not Yet Adopted:
As of December 31, 2019, GASB has issued several statements not yet implemented by the System. The statements, which might impact the System, are as follows:

Government Accounting Standards Board Statement No. 87 (GASB 87)
The objective of GASB Statement No. 87, *Leases,* is to better meet the information needs of the financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Management is still evaluating the potential impact of adoption on the System's financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. However, the GASB announced on March 26, 2020 that it is considering postponing all Statement provisions, including GASB 87, with an effective date that begins on or after reporting period beginning after June 15, 2018.

Note 1. Organization and Significant Accounting Policies (Continued)

Adopted Accounting Principles

Government Accounting Standards Board Statement No. 88 (GASB 88)

The objective of GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements,* is to improve consistency in information that is disclosed in notes to government financial statements related to debt and to provide financial statement users with additional essential information about debt. Management determined that its current disclosures related to debt is in compliance with the requirements of GASB 88.

Government Accounting Standards Board Statement No. 89 (GASB 89)

The objective of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* is to establish accounting requirements for interest cost incurred before the end of a construction period. The System adopted GASB 89 effective January 1, 2019. Adoption of this standard did not have a material impact on the System's financial statements.

Note 2. Cash, Cash Equivalents, and Investments

A. System

Louisiana statutes require that all of the System's deposits be protected by insurance or collateral. The market value of collateral pledged must equal, at least, 100% of the deposits not covered by insurance. As of December 31, 2019 and 2018, the System I's bank balances (including cash and certificates of deposit) were entirely insured or collateralized by investments held by the System's third-party agent in the System's name. The System's investments generally are reported at fair value, as discussed in Note 1.

At December 31, 2019, the System had the following investments and maturities, all of which were held in the System's name by a custodial bank or trust that is an agent of the System:

December 31, 2019 Investment Type	Carrying Amount	Investment Maturities (in Years) Less Than 1	1 - 5	>5
		(amounts in thousands)		
U.S. government security	$ 93,522	$ 17,139	$ 65,978	$ 10,405
U.S. agency obligation	65,741	9,682	47,585	8,474
Municipal obligation	2,435	432	2,003	-
Certificates of deposit	52,939	52,939	-	-
Total	$ 214,637	$ 80,192	$ 115,566	$ 18,879

Note 2. Cash, Cash Equivalents, and Investments (Continued)

A. System (Continued)

At December 31, 2018, the System had the following investments and maturities, all of which were held in the System's name by a custodial bank or trust that is an agent of the System:

December 31, 2018 Investment Type	Carrying Amount	Investment Maturities (in Years) Less Than 1	1 - 5	>5
		(amounts in thousands)		
U.S. government security	$ 74,402	$ 12,191	$ 60,628	$ 1,583
U.S. agency obligation	73,821	19,162	47,445	7,214
Municipal obligation	2,508	773	1,735	-
Certificates of deposit	4,435	4,435	-	-
Total	$ 155,166	$ 36,561	$ 109,808	$ 8,797

Credit Risk: The System may invest idle funds as authorized by Louisiana Statutes, as follows:

a. Direct United States Treasury obligations, the principal and interest of which are fully guaranteed by the government of the United States.
b. United States government agency obligations, the principal, and interest of which are fully guaranteed by the government of the United States, or United States government obligations.
c. Time certificates of deposit of state banks organized under the laws of Louisiana and national banks having their principal office in the State of Louisiana.
d. Mutual or trust funds, which are registered with the Securities and Exchange Commission under the Securities Act of 1933, and the Investment Act of 1940, and which have underlying investments consisting solely of and limited to securities of the United States government or its agencies.

Disclosures Relating to Credit Risk: As of December 31, 2019, the System 's investments were rated A or higher by Standard and Poor's and Fitch Ratings and by Moody's Investor Services with the exception of the System's investments in Federal Agricultural Mortgage Corporation (FAMCA) securities which are unrated.

Note 2. Cash, Cash Equivalents, and Investments (Continued)

A. System (Continued)

Concentration of Credit Risk: The System places no limit on the amount it may invest in any one issuer. Issuers comprising 5 percent or more of the System's investments at December 31, 2019 and 2018 were as follows:

Issuer	**2019**	2018
Federal Farm Credit Bureau	**43%**	32%
Federal Home Loan Bank	**24%**	27%
Federal Home Loan Mortgage Corporation	**8%**	21%
Federal National Mortgage Association	**10%**	13%

The fair values of deposits and investments included in the System's Statements of Net Position as of December 31, 2019 and 2018 are as follows (in thousands):

	2019	2018
Carrying amount		
Deposits	**$ 106,578**	$ 150,082
Investments	**214,637**	155,166
Total deposits and investments	**$ 321,215**	$ 305,248
Included in the following captions		
Current assets		
Cash and cash equivalents	**$ 54,517**	$ 74,228
Investments	**205,462**	151,023
Noncurrent cash and investments required for current liabilities	**21,717**	16,159
Noncurrent cash and investments		
Under Construction Fund held by trustee	**53,799**	73,369
Under bond indenture held by trustee	**2,642**	1,738
Under bond ordinances held by trustee	**9**	9
By board for capital improvements and facility enhancements	**3,000**	3,000
By board for Community ER Services	**1,086**	1,071
By others for professional and other liability claims	**700**	810
Less: amount required for current liabilities	**(21,717)**	(16,159)
Total deposits and investments	**$ 321,215**	$ 305,248

Noncurrent cash and investments include amounts with limitations and internal designations concerning their expenditure.

Note 2. Cash, Cash Equivalents, and Investments (Continued)

A. System (Continued)

The terms of the System's revenue bonds require funds to be maintained on deposit in certain accounts with the Trustee. In connection with the issuance of the Series 2018A and 2018B Revenue Bonds, Series 2011 Hospital Revenue and Refunding Bonds and the Series 2012 Revenue Bonds, the System established a Debt Service Reserve Fund for the purpose of making payments of principal and interest on the bonds if funds available for payment of principal and interest were insufficient. The funds held by the Trustee in this account are subject to a prior lien in favor of the owners of the bonds.

At December 31, 2019 and 2018, the System has a $575,000 certificate of deposit held as collateral against its self-insured portion of workers' compensation claims. At December 31, 2019 and 2018, the System has a $125,000 certificate of deposit held as collateral for its self-insured portion of professional liability claims, under the Louisiana Patients' Compensation Fund. At December 31, 2018, the System has a $110,000 certificate of deposit held as collateral for the development of the land for the new employee parking lot.

Approximately $3,000,000 of the unrestricted net position at December 31, 2019 and 2018, has been designated by the System's board of commissioners for capital improvements and facility enhancements. The designated funds are reflected as a component of noncurrent cash and investments on the Statements of Net Position.

Interest income, gains, and losses, combined, produced an approximate gain of $7,634,000 and $3,503,000 for the years ended December 31, 2019 and 2018, respectively. Fluctuations in investment income are related to changes in investment levels and changes in market valuations.

B. Foundation

At December 31, 2019 and 2018, the Foundation's investments consisted of certificates of deposit. Market risk is dependent on the future changes in market prices of the various investments held.

Financial instruments that potentially expose the Foundation to concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash equivalents are maintained at high-quality financial institutions and credit exposure is limited at any one institution. The Foundation has not experienced any losses on its cash investments. The Foundation's investments do not represent significant concentrations of market risk inasmuch as the Foundation's investment portfolio is adequately diversified among issuers, industries, and geographic regions.

The Foundation's split-interest agreements at December 31, 2019 and 2018 consists of seven charitable gift annuities. The donors of the charitable gift annuities contributed those assets directly to the Foundation.

Note 2. Cash, Cash Equivalents, and Investments (Continued)

B. Foundation (Continued)

Under each of the Foundation's charitable gift annuity agreements, the Foundation accepted a donation and, in return, agreed to pay a fixed amount per year until the annuitant's death. The annual payments are expected to be approximately $7,472 during the coming year. The present value of the estimated future payments, based on life expectancies, of approximately $56,854 and $58,519, as of December 31, 2019 and 2018, respectively, are included in annuities payable in the Foundation's Statement of Financial Position.

C. Fair Value Measurement

The System's and Foundation's investments measured and reported at fair value are classified according to the following hierarchy:

- Level 1 - Investments reflect prices quoted in active markets.
- Level 2 - Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.
- Level 3 - Investments reflect prices based upon unobservable sources.

Debt, equities, and investment derivatives classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

The following table sets forth by level, within the fair value hierarchy, the System's assets at fair value as of December 31, 2019 and 2018:

		Fair Value Measurements Using:		
	12/31/2019	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(amounts in thousands)		
Investments by fair value level				
Debt securities				
Certificates of deposit	$ 52,939	$ 52,939	$ -	$ -
U.S. Government Security	93,522	15,510	78,012	-
U.S. Agency Obligation	65,741	19,072	46,669	-
Municipal obligations	2,435	-	2,435	-
Total investments by fair value level	$ 214,637	$ 87,521	$ 127,116	$ -

Note 2. Cash, Cash Equivalents, and Investments (Continued)

C. Fair Value Measurement (Continued)

The following table sets forth by level, within the fair value hierarchy, the System's assets at fair value as of December 31, 2018:

		Fair Value Measurements Using:		
	12/31/2018	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(amounts in thousands)		
Investments by fair value level				
Debt securities				
Certificates of deposit	$ 4,435	$ 4,435	$ -	$ -
U.S. Government Security	74,402	2,778	71,624	-
U.S. Agency Obligation	73,821	14,130	59,691	-
Municipal obligations	2,508	-	2,508	-
Total investments by fair value level	$ 155,166	$ 21,343	$ 133,823	$ -

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2019 and 2018:

		Fair Value Measurements Using		
	12/31/2019	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(amounts in thousands)		
Investments by fair value level				
Debt Securities				
Certificates of deposit	**$ 5,033**	**$ 5,033**	**$ -**	**$ -**
Total investments by fair value level	**$ 5,033**	**$ 5,033**	**$ -**	**$ -**

	12/31/2018	(Level 1)	(Level 2)	(Level 3)
		(amounts in thousands)		
Investments by fair value level				
Debt Securities				
Certificates of deposit	$ 4,907	$ 4,907	$ -	$ -
Total investments by fair value level	$ 4,907	$ 4,907	$ -	$ -

Note 3. Third-Party Payor Arrangements

The System participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. During the years ended December 31, 2019 and 2018, approximately 28% of the System's net patient service charges were furnished to Medicare and Medicaid program beneficiaries. Revenue derived from the Medicare program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the United States Department of Human Services before settlement amounts become final.

Revenue derived from the Medicaid program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the Department of Health and Hospitals of the State of Louisiana before those settlement amounts become final. The System's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2016. The System's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through December 31, 2014.

The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Inpatient and outpatient services rendered to managed care subscribers are reimbursed at prospectively determined rates per discharge, discounts from established changes, and prospectively determined daily rates.

Note 4. Capital Assets

A summary of changes in the System's capital assets during 2019, is as follows (in thousands):

	December 31, 2018	Additions	Transfers and Disposals	December 31, 2019
Capital assets, not being depreciated:				
Land	$ 6,619	$ 4,226	$ -	$ 10,845
Construction in progress	9,472	27,958	(7,174)	30,256
Total capital assets not being depreciated	16,091	32,184	(7,174)	41,101
Capital assets, being depreciated:				
Land improvements	4,094	-	-	4,094
Buildings and improvements	136,450	7,151	-	143,601
Equipment	130,425	7,514	(4,877)	133,062
Total capital assets being depreciated	270,969	14,665	(4,877)	280,757
Less: total accumulated depreciation	(152,942)	(13,880)	4,633	(162,189)
Total capital assets, being depreciated, net	118,027	785	(244)	118,568
Total	$ 134,118	$ 32,969	$ (7,418)	$ 159,669

Note 4. Capital Assets (Continued)

A summary of changes in the System's capital assets during 2018 is as follows (in thousands):

	December 31, 2017	Additions	Transfers and Disposals	December 31, 2018
Capital assets, not being depreciated:				
Land	$ 5,326	$ 1,293	$ -	$ 6,619
Construction in progress	3,505	10,587	(4,620)	9,472
Total capital assets not being depreciated	8,831	11,880	(4,620)	16,091
Capital assets, being depreciated:				
Land improvements	4,094	-	-	4,094
Buildings and improvements	135,044	1,406	-	136,450
Equipment	124,472	10,835	(4,882)	130,425
Total capital assets being depreciated	263,610	12,241	(4,882)	270,969
Less: total accumulated depreciation	(144,112)	(13,712)	4,882	(152,942)
Total capital assets, being depreciated, net	119,498	(1,471)	-	118,027
Total	$ 128,329	$ 10,409	$ (4,620)	$ 134,118

Depreciation expense reported during the fiscal year ended December 31, 2019 and 2018, was approximately $13,880,000 and $13,712,000 (exclusive of amortization expense), respectively.

Note 5. Long-Term Debt

The details and balances of long-term debt at December 31, 2019 and 2018, are presented below (in thousands):

	2019	2018
Hospital Revenue Bonds, Series 2018A	$ 72,620	$ 72,620
Hospital Revenue Bonds, Series 2018B	12,285	12,285
Hospital Revenue Bonds, Series 2015	6,680	9,569
Hospital Revenue Bonds, Series 2016	33,900	34,000
Hospital Revenue Bonds, Series 2018 Premium	3,528	3,820
Less: amounts due within one year	(3,370)	(3,281)
Total long-term debt	$ 125,643	$ 129,013

Hospital Revenue and Refunding Bonds Series 2018A: On July 1, 2018, the System issued $72,620,000 of Hospital Revenue and Refunding Bonds, Series 2018A Bonds (Series 2018A), for the purpose of (a) financing the purchase and/or construction of new buildings on the System's campus, (b) refund approximately $23,195,000 of the System's outstanding Hospital Revenue Bonds Series 2012, and (c) repayment of issuance costs associated with the issuance of Series 2018A Bonds. The Series 2018A Bonds and the interest thereon are limited obligations of the System payable solely from and secured by a pledge of the Trust Estate, as defined in the indenture, including the Revenues, as defined.

The Series 2018A Bonds are subject to optional, extraordinary optional, extraordinary special and mandatory sinking fund redemption prior to maturity. The Series 2018A Bonds mature, unless sooner paid, on July 1, 2048, and bear interest ranging from a low of 4% to a high of 5%.

The Series 2018A Bonds were issued with a premium of $3,893,093. The premium is being amortized over the expected life of the bonds.

Taxable Hospital Refunding Revenue Bonds Series 2018B: On July 1, 2018, the System issued $12,285,000 of Taxable Hospital Refunding Revenue Bonds, Series 2018B Bonds (Series 2018B Bonds), for the purpose of advance refunding approximately $18,830,000 of the System's outstanding Hospital Revenue Refunding Bonds, Series 2011, and to repay the costs of issuance of the Series 2018B Bonds. The Series 2018B Bonds and the interest thereon are limited obligations of the System payable solely from and secured by a pledge of the Trust Estate, as defined in the indenture, including the Revenues, as defined.

The bond proceeds, along with other available moneys, were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Position as of December 31, 2018.

The Series 2018B Bonds are subject to optional, extraordinary optional, extraordinary special and mandatory sinking fund redemption prior to maturity. The Series 2018B Bonds mature, unless sooner paid, on July 1, 2048, and bear interest ranging from a low of 4.721% to a high of 4.921%.

Note 5. Long-Term Debt (Continued)

Hospital Revenue Bonds, Series 2015: On March 1, 2015 the System issued $20,000,000 of tax-exempt Revenue Bonds, Series 2015 (Series 2015), for the purpose of financing the cost of acquisition and construction of capital improvements and equipment for the System, or any of its other facilities, including, but not limited to, imaging equipment, computer hardware and software, medical equipment and patient furniture, and for paying the costs of issuing the Series 2015 bonds. The Series 2015 Bonds and the interest thereon are limited obligations of the System payable solely from and secured by a pledge of the Trust Estate, as defined in the indenture, including the Revenues, as defined. The Series 2015 Bonds are issued on a complete parity with the outstanding Series 2011 Bonds and Series 2012 Bonds.

The Series 2015 bonds mature, unless sooner paid, on March 1, 2022, and bear interest at the rate of 1.67% per annum. The Series 2015 Bonds are subject to extraordinary optional and special redemption on any date prior to maturity. Those Series 2015 Bonds are subject to optional redemption after April 1, 2015, in whole at any time, at redemption prices ranging from a high of 103.00% through March 31, 2016 to a low of 100.00% on April 1, 2020 and thereafter. At December 31, 2019 and 2018, the principal outstanding on the Series 2015 bonds was approximately $6,680,000 and $9,569,000, respectively.

Hospital Revenue Bonds, Series 2016: On September 30, 2016 the System issued $34,000,000 of tax-exempt Revenue Bonds, Series 2016 (Series 2016), for the purpose of financing the purchase of building, land, capital equipment and improvements, including, but not limited to, (a) renovation and expansion of pharmacy, laboratory, central sterile areas, surgery, and parking garages and/or (b) making capital expenditures throughout the properties of the System. The Series 2016 Bonds and the interest thereon are limited obligations of the System payable solely from and secured by a pledge of the Trust Estate, as defined in the indenture, including the Revenues, as defined. The Series 2016 Bonds are issued on a complete parity with the outstanding Series 2011 Bonds, Series 2012 Bonds, and Series 2015 Bonds.

The Series 2016 bonds mature, unless sooner paid, on July 1, 2031, and bear interest at the rate of 1.90% per annum. The Series 2016 Bonds are subject to extraordinary optional and special redemption, by the System's option, in whole or in part at a redemption price equal to the principle amount of each Bond redeemed, and accrued interest on any date prior to maturity. At December 31, 2019 and 2018, the principal outstanding on the Series 2016 bonds was $33,900,000 and $34,000,000, respectively.

Debt Covenants:
For all of its Bond Series, the System is required to maintain a debt service coverage ratio of 110%, together with debt service reserve requirements, both of which are defined in the Trust Indentures. As of December 31, 2019, the System was in compliance with the provisions of the Trust Indentures.

Note 5. Long-Term Debt (Continued)

A summary of changes in long-term debt during 2019 is as follows (in thousands):

	December 31, 2018	Additions/ Changes	Retirements/ Payments	December 31, 2019	Due Within One Year
Hospital Revenue Bonds, Series 2015	$ 9,569	$ -	$ (2,889)	$ 6,680	$ 2,938
Hospital Revenue Bonds, Series 2016	34,000	-	(100)	33,900	140
Hospital Revenue Bonds, Series 2018A	72,620	-	-	72,620	-
Hospital Revenue Bonds, Series 2018B	12,285	-	-	12,285	-
Hospital Revenue Bonds, Series 2018 Amortized Premium	3,820	-	(292)	3,528	292
	$ 132,294	$ -	$ (3,281)	$ 129,013	$ 3,370

A summary of changes in long-term debt during 2018 is as follows (in thousands):

	December 31, 2017	Additions/ Changes	Retirements/ Payments	December 31, 2018	Due Within One Year
Hospital Revenue Refunding Bonds, Series 2011	$ 24,700	$ -	$ (24,700)	$ -	$ -
Hospital Revenue Bonds, Series 2012	23,545	-	(23,545)	-	-
Hospital Revenue Bonds, Series 2015	12,411	-	(2,842)	9,569	2,889
Hospital Revenue Bonds, Series 2016	34,000	-	-	34,000	100
Hospital Revenue Bonds, Series 2018A	-	72,620	-	72,620	-
Hospital Revenue Bonds, Series 2018B	-	12,285	-	12,285	-
Hospital Revenue Bonds, Series 2018 Amortized Premium	-	3,893	(73)	3,820	292
	$ 94,656	$ 88,798	$ (51,160)	$ 132,294	$ 3,281

Note 5. Long-Term Debt (Continued)

Principal and interest payments due on long-term debt over the next five years and thereafter are as follows (in thousands):

December 31,	Principal	Interest
2020	$ 3,078	$ 4,689
2021	3,127	4,637
2022	3,160	4,554
2023	3,215	4,491
2024	3,275	4,428
2025-2029	17,325	21,167
2030-2035	18,050	19,086
2036-2040	21,575	14,594
2041-2045	26,760	9,289
2046-2049	25,920	2,581
	$ 125,485	$ 89,516

A summary of interest cost and interest income on borrowed funds held by the Trustee under the Hospital Revenue and Refunding Bonds during the years ended 2019 and 2018, follows (in thousands):

	2019	2018
Interest cost:	**$ 4,628**	$ 4,268
Charged to non-operating expenses	**$ 4,628**	$ 4,268
Interest income:	**$ 2,354**	$ 1,466
Credited to non-operating income	**$ 2,354**	$ 1,466

Note 6. Commitments

Ochsner Joint Operating Agreement: On September 30, 2014, the System signed a Joint Operating Agreement (JOA) with Ochsner Clinic Foundation (OCF) and Ochsner Health Systems (OHS), whereby the System and OHS enter into and collaborate with OCF and OHS for the integration of their operations in a manner to enable the System to improve the quality of care it delivers at a more affordable cost than it does so today and to allow OHS to create a larger, complimentary system of integrated hospitals to enable it to provide healthcare more efficiently than it does so today.

Note 6. Commitments

The System and OCF desire to jointly manage and operate their respective complimentary assets, located in West St. Tammany Parish, as well as their respective affiliated physician quality networks, St. Tammany Quality Network and Ochsner Health Network, on a coordinated, integrated, and exclusive basis which will enhance and improve the delivery of cost-effective, quality healthcare services, provide healthcare services to the indigent, promote the education, learning and skill of physicians, scientists, and allied health professionals and offer more services to an increased population more efficiently and cost effectively.

Financial integration pursuant to the JOA is accomplished based on allocations of combined adjusted operating income of the System and OHS from West St. Tammany Parish. Amounts earned up to a predetermined threshold of the combined adjusted operating income are shared by both parties at a predetermined rate. Any amounts earned in excess of the predetermined threshold of combined adjusted operating income are shared by the parties equally. The JOA commenced on September 30, 2014, and continues for a term of twenty years, and will automatically renew for ten-year terms thereafter. For the years ended December 31, 2019 and 2018, the System accrued $11,346,000 and $3,162,000 for the estimated amounts owed to OHS for the sharing of amounts earned for the periods of operations, which is included within trade accounts payable on the Statements of Net Position.

Leases: The System is a party to multiple operating leases for equipment and property utilized in its operations. Total rental expense incurred for all operating leases and rentals was approximately $10,612,000 and $9,720,000 for the years ended December 31, 2019 and 2018, respectively. The future minimum lease payments at December 31, 2019, for non-cancelable operating leases are as follows (in thousands):

2020	$ 8,390
2021	8,025
2022	7,389
2023	6,812
2024	6,170
Thereafter	8,018
Total	$ 44,804

Note 7. Compensated Absences

Employees of the System are entitled to paid time off depending on their length of service and other factors. Accrued compensated absences included as accrued vacation on the System's Statements of Net Position were approximately $4,685,000 and $4,747,000 a as of December 31, 2019 and 2018, respectively.

Note 8. Employee Benefit Plans

Noncontributory Defined Contribution Plan:
The System has a noncontributory defined contribution plan (the Plan) that covers substantially all of its employees. The Plan allows for employees age 21 or older with one year of service (defined as 1,000 hours of service in any one year) to participate. Participants enrolled in the Plan prior to December 31, 2012, receive contributions equal to 6% of their aggregate compensation. Participants with an enrollment date of January 1, 2013 and later receive a contribution ranging of up to 6%, based on their years of service. Participating employees become fully invested in the employer contributions upon completing five years of service. Employees terminating their employment prior to five years forfeit the employer contributions made.

For the years ended December 31, 2019 and 2018, contributions required under the Plan were approximately $5,466,000 and $5,400,000, respectively, which represents approximately 5.3% and 5.5% of covered payroll for each year, respectively. The total covered payroll for the years ended December 31, 2019 and 2018 was $102,331,000 and $95,564,000, respectively. After applying the effects of forfeitures of non-vested accounts, contributions paid by the System were approximately $5,430,000 and $5,300,000, respectively, for the years ended December 31, 2019 and 2018.

Retirement expense included in salaries, wages, and benefits related to the Plan described above approximated $4,904,000 and $4,597,000 for the years ended December 31, 2019 and 2018, respectively.

Community Emergency Services Plans:
The System also provides a Community Emergency Services Plan (CESP) to certain independent contractor physicians. The purpose of the CESP is to assist the System in attracting and retaining highly qualified individuals to provide services to the System under the System's Community Emergency Services Program. The CESP is a deferred compensation plan taxed under Code section 457(f) and provides independent contractor physician compensation on a deferred basis for providing emergency department call coverage.

During 2019, the System established a non-qualified deferred compensation plan taxed under Code section 457(f), for the benefit of its Chief Executive Officer (CEO).

Other Voluntary Retirement Plans:
The System offers two voluntary retirement plans to all employees. Contributions into the two plans are made by the employee only and are tax sheltered from federal and state taxes.

Note 9. Foundation Net Assets

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated a portion of these net assets to board established (designated) funds that are detailed in Note 10.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Net assets with donor restrictions consist of the following as of December 31, 2019 and 2018:

	2019	2018
Subject to Restriction in Perpetuity		
Endowment funds	**$ 238,252**	$ 233,130
Total Subject to Restriction in Perpetuity	**238,252**	233,130
Purpose Restrictions:		
Pediatrics	**1,286,903**	1,192,172
Hospice	**605,822**	587,728
Building Expansion Initiative	**374,612**	35,632
Miscellaneous Directed Gifts	**321,181**	503,005
Cancer Center	**319,459**	262,028
Parenting Center	**277,780**	298,798
Healing Arts	**182,889**	203,991
STPH Employee Benevolent Fund	**161,415**	111,951
Facility and Technology Expansion	**120,099**	199,996
Women's Pavilion	**71,966**	58,466
Education	**67,175**	62,392
Oncology	**48,665**	63,041
Employee Education	**20,059**	19,196
Total Purpose Restrictions	**3,858,025**	3,598,396
Total Net Assets with Donor Restrictions	**$ 4,096,277**	$ 3,831,526

Note 9. Foundation Net Assets

Foundation net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the expiration of time during the years ended December 31, 2019 and 2018, as follows:

	2019	2018
Net Assets Released from Restrictions		
Cancer Center	**$ 323,278**	$ 428,132
Parenting Center	**82,978**	88,615
Healing Arts	**36,796**	121,478
Miscellaneous Directed Gifts	**28,665**	97,902
Oncology	**25,512**	17,896
Pediatrics	**15,490**	9,088
Education	**12,448**	-
STPH Employee Benevolent Fund	**12,155**	21,030
Hospice	**11,905**	4,084
Facility and Technology Expansion	**5,000**	4,937
Employee Education	**1,328**	-
Charitable Remainder Trust	**-**	187,871
Community Wellness	**-**	4,936
Total Net Assets Released from Restrictions	**$ 555,555**	$ 985,969

Note 10. Foundation Endowment Composition

The State of Louisiana enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective August 15, 2010, the provisions of which apply to endowment funds existing on or established after that date. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation's endowment includes donor-restricted funds. The Board of Directors has determined that the Foundation's permanently restricted net assets meet the definition of endowment funds under UPMIFA.

The Foundation has interpreted the State of Louisiana's UPMIFA as requiring the preservation of the fair value of the original gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions - board designated (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Note 10. Foundation Endowment Composition (Continued)

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

Net Assets Classification - The Board of Trustee's has designated a portion of net assets without donor restrictions as a board designated endowment. The Board's current policy is to designate 75% of net assets without donor restrictions contributions each year to the board designated endowment to support the mission of the Foundation. Since these amounts result from an internal designation and are not donor-restricted, it is classified and reported as net assets without donor restrictions. In accordance with U.S. generally accepted accounting principles, contributions restricted by donors for endowment purposes are classified and reported as net assets with donor restrictions.

Endowment Investment Spending Policies - The Foundation's investment spending policy is that all income earned on the board designated endowment fund is to be reinvested and used for purposes, stipulated by the Board of Trustees. Absent donor stipulations, income from donor restricted endowments is reinvested in the board designated endowment fund.

Endowment Investment Policies - The Foundation's investment policy is that all endowed funds will be maintained and managed by Management within their cash and investment pool and in accordance with their investment policies. Each endowment fund participates in the income and return of the pool on a per share basis commensurate with its contribution to the pool.

Funds with Deficiencies - From time to time, the fair value of assets associated with the individual donor endowment funds may fall below the level that the donor or state statutes require the Foundation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were approximately $10,400 and $9,400 as of December 31, 2019 and 2018, respectively. The deficiencies resulted from change in estimated life expectancies for the beneficiaries of the gift annuities included in the endowment.

Note 10. Foundation Endowment Composition (Continued)

The Foundation maintains both board designated and donor restricted endowment funds. Endowment net assets composition by fund type as of December 31, 2019 and 2018, is as follows:

2019	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Board designated endowment	**$ 2,738,758**	**$ -**	**$ 2,738,758**
Donor restricted endowments	**-**	**248,640**	**248,640**
Deficiency of Fair Value	**-**	**(10,388)**	**(10,388)**
Total	**$ 2,738,758**	**$ 238,252**	**$ 2,977,010**

2018	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment	$ 2,675,788	$ -	$ 2,675,788
Donor restricted endowments	-	242,517	242,517
Deficiency of Fair Value	-	(9,387)	(9,387)
Total	$ 2,675,788	$ 233,130	$ 2,908,918

A summary of the changes in the Foundation's endowment net assets for the year ended December 31, 2019 and 2018 is as follows:

2019	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Net assets, beginning of year	**$ 2,675,788**	**$ 233,130**	**$ 2,908,918**
Investment return, net	**44,204**	**-**	**44,204**
Change in split-interest agreements	**-**	**(1,001)**	**(1,001)**
Contributions and designations	**18,766**	**6,123**	**24,889**
Net assets, end of year	**$ 2,738,758**	**$ 238,252**	**$ 2,977,010**

2018	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$ 2,398,924	$ 228,163	$ 2,627,087
Investment return, net	8,309	-	8,309
Change in split-interest agreements	-	(535)	(535)
Proceeds from Charitable Remainder Trust	187,871	-	187,871
Contributions and designations	80,684	5,502	86,186
Net assets, end of year	$ 2,675,788	$ 233,130	$ 2,908,918

Note 11. Risk Management, Self-insurance, and Contingencies

Professional Liability and Self-Insurance: The System participates in the Louisiana Patients' Compensation Fund (the Fund) for medical malpractice claims. As a participant, the System has a statutory limitation of liability, which provides that no award can be rendered against it in excess of $500,000, plus interest and costs. The Fund provides coverage on an occurrence basis for claims over $100,000 and up to $500,000. Through March 30, 2013, the System was self-insured for costs up to $100,000 per claim. Effective for any claims over matters occurring beginning April 1, 2013, the System has purchased an insurance policy to cover the first $100,000 of any claim, subject to certain deductibles.

The System is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the System and are currently in various stages of litigation. It is the opinion of management that estimated malpractice costs resulting from pending or threatened litigation are adequately accrued at December 31, 2019 and 2018, respectively. Losses from asserted claims and from unasserted claims identified under the System's incident reporting system are accrued based on estimates that incorporate the System's past experience as well as other considerations including the nature of each claim or incident and relevant trend factors.

Additional claims may be asserted against the System arising from service provided to patients through December 31, 2019, that have not been identified under the incident reporting system. The System is unable to determine the ultimate cost of the resolution of such potential claims; however, management believes it has adequately provided for them.

The System self-insures against losses related to workers' compensation and employee health claims. Excess loss coverage is purchased for workers' compensation in amounts of $600,000 and excess loss coverage for individual employee health claims is purchased in amounts of $250,000.

The following is a summary of the activity in the liability for medical malpractice, workers' compensation and employee health claims for the years ended December 31, 2019 and 2018 (in thousands):

	Beginning Balance	Expense and Changes in Estimates	Payments	Ending Balance
2019	**$ 3,129**	**$ 15,701**	**$ 15,689**	**$ 3,141**
2018	$ 2,910	$ 15,839	$ 15,620	$ 3,129

Note 11. Risk Management, Self-insurance, and Contingencies (Continued)

Laws and Regulations: The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments; compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in exclusion from government healthcare program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. While the System is subject to similar regulatory reviews, management believes the System is not the subject of any investigation at this time, and the outcome of any such regulatory review will not have a material adverse effect on the System's financial position.

In 2006, Congress passed the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to expand the Recovery Audit Contractor (RAC) to a permanent and nationwide basis. Soon thereafter, the Medicaid Integrity Contractor (MIC) program was implemented. The programs use RACs and MICs to search for potentially improper Medicare or Medicaid payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year ago but not longer than three years ago. Once a RAC or MIC identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare or Medicaid reimbursement in an amount estimated to equal the overpayment.

The System will deduct from revenue, amounts assessed under the RAC and MIC audits at the time a notice is received until such time that estimates of net amounts due can be reasonably estimated. The System has been subject to audits and will continue to be subject to additional audits in the future. The System has recorded an estimated liability of approximately $472,000 and $482,000 as a component of Settlements due to Medicare and Medicaid intermediaries on the statements of net position as of December 31, 2019 and 2018, respectively, for future audits. It is reasonably possible that the recorded estimate could change materially in the near term.

In March 2010, the Patient Protection and Affordable Care Act (PPACA) were signed into law. The PPACA is creating sweeping changes across the healthcare industry, including how care is provided and paid for. A primary goal of this comprehensive reform legislation is to extend health coverage to uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs.

Note 12. Concentrations of Credit Risk

The System grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31st was as follows:

	2019	2018
Medicare	20 %	18 %
Medicaid	10	11
Insurance/Managed Care	55	57
Patients	15	14
	100 %	100 %

Note 13. St. Tammany Hospital Foundation Cooperative Endeavor Agreement

As disclosed in Note 1, the System receives support from the St. Tammany Parish Hospital Foundation. The Foundation was formed in February 2003 and is a legally separate 501(c)(3) non-profit organization governed by a separate Board of Trustees. Under the criteria established by Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units an Amendment of GASB Statement No.14*, the Foundation is recognized as a component unit of the System.

Contributions recognized by the System in the form of monetary and non-monetary contributions and donations from the Foundation were approximately $141,000 and $133,000 in 2019 and 2018, respectively.

The Foundation and the System have entered into a cooperative endeavor agreement to assist the Foundation in achieving its purpose of benefitting the System by comprehensive fund development programs to support, develop, and expand the System's services, functions, purpose, and mission of providing quality community healthcare to Western St. Tammany Parish.

Under the terms of the agreement the System assumes the obligation to provide administrative services, use of office space, equipment, and supplies utilized in the Foundation's day to day operations. The Foundation's executive director is selected and employed by the System, subject to the concurrence of the executive committee of the board of trustees of Foundation. The executive director reports to and works in partnership with the CEO of the System and the Foundation's board of trustees.

The total amount of expenditures recognized in the System's December 31, 2019 and 2018 financial statements in connection with the agreement were approximately $393,000 and $423,000, respectively.

Note 14. Medicaid Disproportionate Share Hospital Reimbursement Cooperative Endeavor Agreement

To improve or expand allowable healthcare services for Medicaid beneficiaries or low-income, uninsured patients, the System is involved in a series of collaborative agreements and cooperative endeavors designed to allow additional Medicaid funds for providing these services in the community. These agreements are detailed below:

East Jefferson General Hospital Cooperative Endeavor Agreement: The System entered into a cooperative endeavor agreement, which became effective January 16, 2016, with East Jefferson General Hospital (EJGH) (a Louisiana hospital service district) and other participating hospital service districts (HSDs). The Centers for Medicare and Medicaid Services (CMS) have previously approved Medicaid State Plan Amendments (SPA), submitted by the Louisiana Department of Health (LDH), which provides for reimbursement to non-rural, non-state public hospitals up to the Medicare inpatient upper payment limits.

Under this agreement, EJGH has agreed to cooperate in the establishment of a funding program by contributing a portion of the upper payment limit (UPL) payments that result from SPAs to the other HSDs, including the System, for the purpose of ensuring that adequate and essential healthcare services are accessible and available to low-income and/or indigent citizens and medically underserved non-rural populations in Louisiana in a manner defined in the agreement. Funding for each participating hospital service district is based upon a formula utilizing each district's reported Medicaid patient days. The term of this agreement is one year with automatic renewals for additional terms of one year unless earlier terminated.

The System received funds under this grant program in the amount of approximately \$8,267,000 and \$6,854,000, in 2019 and 2018, respectively. The funds are included in other operating revenues in the Statements of Revenue, Expenses, and Changes in Net Position.

Physicians' UPL Agreement with the Louisiana Department of Health (LDH): On December 8, 2011, the Organization entered in to an agreement with LDH which was approved by CMS. Under the program LDH began making payments under the Physician's Supplemental Payment Program for non-state-owned public hospitals (HSDs) for dates of service effective July 1, 2010. The purpose of this program is to enhance payments to physicians employed or contracted by the public hospitals. The System agreed to transfer funds to LDH to be used as Medicaid matching funds for the purpose of making physician supplemental payments and providing the State with additional resources to assist in the medical costs to the State.

These matching funds are comprised of (1) an amount to be utilized as the "non-federal share" of the supplemental payments for services provided by the identified physician; and other healthcare professionals and (2) the "state retention amount," which is fifteen percent of the "non-federal share", for the State to utilize in delivering healthcare services. In turn, LDH agrees to make supplemental Medicaid payments to the System. The supplemental payments include the "non-federal share" and the "federal funds" generated by the "non-federal share" payments. The total amount of the supplemental payment is intended to represent the difference between the Medicaid payments otherwise made to these qualifying providers and the Average Community Rate for these services.

Note 14. Medicaid Disproportionate Share Hospital Reimbursement Cooperative Endeavor Agreement (Continued)

Physicians' UPL Agreement with the Louisiana Department of Health (LDH) (Continued): Funds received under this program are included in net patient service revenue on the Statements of Revenue, Expenses, and Changes in Net Position.

Physician Rate Enhancement Program: LDH has implemented a supplemental payment program for non-state-owned public hospitals, such as the System, to enhance Medicaid fee for service payments to physicians employed by or contracted to provide such services at such hospitals. LDH contracts with the Healthy Louisiana Program (formerly known as Bayou Health Program) managed care organizations, including those currently under contract with LDH, specifically, Aetna Better Health Louisiana, Amerigroup Louisiana, Inc., AmeriHealth Caritas Louisiana, Inc., Louisiana Healthcare Connections, Inc., and United Healthcare of Louisiana, Inc., to provide core benefits and services for individuals enrolled in the Healthy Louisiana Program (Medicaid enrollees) that are compensated by specified monthly capitation rates on a per member per month (PMPM) basis.

To ensure uniform reimbursement in the Medicaid program for physician services, provide greater opportunity and incentives for managed care organizations contracted with LDH to provide services to Medicaid beneficiaries to improve recipient health outcomes, add benefits for Medicaid enrollees, and support the healthcare safety-net for low-income and needy patients, LDH increased the PMPM rate for reimbursement of physician services to include the full Medicaid pricing (FMP) component of the Mercer Rate Methodology (enhanced PMPM rate) for safety-net physicians to receive rates more consistent with their fee-for-service payments (referred to herein as Physician Rate Enhancement Funds and the Physician Rate Enhancement Program).

Physician Rate Enhancement Funds can be paid to a hospital political subdivision, such as the System, that elects to provide the State match for the federal funding associated with these Physician Rate Enhancement Payments, if an assignment agreement is in place between the System and a physician group that has contracted with the System to provide inpatient and outpatient physician services and is eligible to receive Physician Rate Enhancement Funds as a result of such services. The System obtained assignments from several physician groups that have contracted with the System to provide inpatient and outpatient services to the System's patients. As a result of these assignments, the System received Physician Rate Enhancement Funds from the five managed care organizations participating in the Healthy Louisiana Program totaling $1,483,000 and $1,812,000 in 2019 and 2018, respectively. The funds are included in net patient service revenue on the Statements of Revenue, Expenses, and Changes in Net Position.

Note 15. Mary Bird Perkins Cancer Center Cooperative Endeavor Agreement

On April 4, 2011 the System entered into a cooperative endeavor agreement (CEA) with Mary Bird Perkins Cancer Center (MBPCC). The purpose of this CEA is to enhance the effectiveness and quality of both parties' cancer-related programs and establish a premier cancer center for patients of western St. Tammany Parish and the surrounding areas. To achieve this purpose, both parties agreed to operate their respective cancer-related activities as a comprehensive cancer center as directed by the Cancer Center Leadership Team which is made up of members from both parties.

Note 15. Mary Bird Perkins Cancer Center Cooperative Endeavor Agreement (Continued)

Under this CEA, MBPCC agrees to use program funds obtained from unrestricted grants and contracts to fund activities where the System and MBPCC have agreed to share responsibility via an approved cancer center budget. MBPCC also agrees to transfer 75% of unrestricted community philanthropy it receives from donors for the Cancer Center to STPH Foundation for deposit to the Mary Bird Perkins Cancer Center at St. Tammany Parish Hospital Fund.

This CEA was amended and restated as of May 16, 2016 which altered terms and conditions under the original CEA. Under the amended and restated CEA, MBPCC agrees to transfer 100% of unrestricted community philanthropy it receives from donors for the Cancer Center to STPH Foundation for deposit to the Mary Bird Perkins Cancer Center at St. Tammany Parish Hospital Fund.

The primary term of the amended and restated CEA will expire June 30, 2021. The primary term may be extended for two successive five-year renewal terms provided the parties mutually agree.

Note 16. Joint Ventures

Rehab Facility: During August of 2018, the System entered into an agreement with Slidell Memorial Hospital, Ochsner Clinic Foundation, and Hospital Holdings Corporation to establish a new entity, NSR Louisiana, LLC, that will provide inpatient rehabilitation services at a facility located in Lacombe, Louisiana. Under the terms of the agreement, the System was required to fund $237,000, which resulted in a 30% ownership interest in NSR Louisiana, LLC. Through December 31, 2019, NSR Louisiana, LLC's operating activities were not material to the System's operations.

Long-term Acute Care Hospital: During 2019, the System entered into an agreement with Slidell Memorial Hospital, Ochsner Clinic Foundation, and Louisiana Health Care Group, LLC to establish a new entity, Northshore Extended Care Hospital, LLC, that will provide skilled nursing services at a facility in Lacombe, Louisiana. The System was required to fun an initial capital contribution of $430,000, which resulted in a 16% ownership interest. Through December 31, 2019, Northshore Extended Care Hospital, LLC has LTAC's operating activities were not material to the System's operations.

The System's ownership interests in the above entities are included in Other Assets on the Statements of Financial Position and are accounted for by the equity method of accounting.

Toxicology Testing Services: As disclosed in Note 1, the System entered into an agreement with Labtrust, LLC to establish a new entity, St. Tammany Toxicology Laboratory Services, LLC (Lab Services), that will provide toxicology laboratory services at a facility in Covington, Louisiana. Through December 31, 2019, Lab Services has not had significant operating activities.

Note 17. Blended Component Unit Condensed Financial Information

In the financial statements for the System, STMS, PMC, STQN, STPN, and STPH are presented in a blended format. The tables below individually disclose the net position and changes in net position for each blended entity as of and for the years ended December 31, 2019 and 2018. Material inter-entity transactions are eliminated in the presentation below (in thousands):

	2019					
	System	STMS	PMC	STQN	STPN	Total
Current assets	$ 333,935	$ -	$ -	$ 514	$ 884	$ 335,333
Capital assets, net	159,334	335	-	-	-	159,669
Other assets	39,335	1,262	-	-	-	40,597
Deferred outflows	315	-	-	-	-	315
Total assets and deferred outflows	$ 532,919	$ 1,597	$ -	$ 514	$ 884	$ 535,914
Current liabilities	$ 27,358	$ 801	$ 15	$ 3,891	$ 19,992	$ 52,057
Long-term liabilities	125,643	-	-	-	-	125,643
Net position	379,918	796	(15)	(3,377)	(19,108)	358,214
Total liabilities and net position	$ 532,919	$ 1,597	$ -	$ 514	$ 884	$ 535,914
Operating revenues	$ 355,724	$ 66	$ 9	$ 261	$ 8,324	$ 364,384
Depreciation	13,848	32	-	-	-	13,880
Other operating expenses	304,379	35	12	1,117	10,082	315,625
Operating income (loss)	37,497	(1)	(3)	(856)	(1,758)	34,879
Nonoperating revenues	1,743	-	-	-	-	1,743
Excess of revenues over expenses	39,240	(1)	(3)	(856)	(1,758)	36,622
Capital contributions	141	-	-	-	-	141
Change in net position	39,381	(1)	(3)	(856)	(1,758)	36,763
Net position, beginning of year	340,537	797	(12)	(2,521)	(17,350)	321,451
Net position, end of year	$ 379,918	$ 796	$ (15)	$ (3,377)	$ (19,108)	$ 358,214

Note 17. Blended Component Unit Condensed Financial Information (Continued)

	2018					
	System	STMS	PMC	STQN	STPN	Total
Current assets	$ 290,207	$ -	$ -	$ 572	$ 850	$ 291,629
Capital assets, net	133,751	367	-	-	-	134,118
Other assets	63,670	1,196	-	-	-	64,866
Deferred outflows	522	-	-	-	-	522
Total assets and deferred outflows	$ 488,150	$ 1,563	$ -	$ 572	$ 850	$ 491,135
Current liabilities	$ 18,600	$ 766	$ 12	$ 3,093	$ 18,200	$ 40,671
Long-term liabilities	129,013	-	-	-	-	129,013
Net position	340,537	797	(12)	(2,521)	(17,350)	321,451
Total liabilities and net position	$ 488,150	$ 1,563	$ -	$ 572	$ 850	$ 491,135
Operating revenues	$ 332,473	$ 66	$ 9	$ 247	$ 7,118	$ 339,913
Depreciation	13,680	32	-	-	-	13,712
Other operating expenses	279,614	35	12	768	8,810	289,239
Operating income (loss)	39,179	(1)	(3)	(521)	(1,692)	36,962
Nonoperating revenues	(755)	-	-	-	-	(755)
Excess of revenues over expenses	38,424	(1)	(3)	(521)	(1,692)	36,207
Capital contributions	133	-	-	-	-	133
Change in net position	38,557	(1)	(3)	(521)	(1,692)	36,340
Net position, beginning of year	301,980	798	(9)	(2,000)	(15,658)	285,111
Net position, end of year	$ 340,537	$ 797	$ (12)	$ (2,521)	$ (17,350)	$ 321,451

Cash flows generated by the aggregate blended components separately from STPH have not been material and are not presented.

Note 18. Subsequent Events

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. It is unknown how long these conditions will last and what the financial effect, if any, will be to the System.

LAPORTE
CPAs & BUSINESS ADVISORS

LaPorte, APAC
111 Veterans Blvd. | Suite 600
Metairie, LA 70005
504.835.5522 | Fax 504.835.5535
LaPorte.com

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

Independent Auditor's Report

To Members of the Board of Commissioners
St. Tammany Parish Hospital Service District No. 1
St. Tammany Parish, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component unit of St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (St. Tammany Health System), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise St. Tammany Health System's basic financial statements, and have issued our report thereon dated April 28, 2020. The financial statements of the St. Tammany Parish Hospital Foundation were not audited in accordance with *Governmental Auditing Standards.*

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered St. Tammany Health System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of St. Tammany Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of St. Tammany Health System's internal control.

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

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

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

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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

LaPorte

A Professional Accounting Corporation

Metairie, LA
April 28, 2020

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CPAs & BUSINESS ADVISORS

111 Veterans Blvd. | Suite 600
Metairie, LA 70005
504.835.5522 | Fax 504.835.5535
LaPorte.com

Independent Auditor's Report on the Supplementary Information

To the Board of Commissioners
St. Tammany Parish Hospital Service District No. 1
St. Tammany Parish, Louisiana

We have audited the financial statements of the business-type activities and the discreetly presented component unit of St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (St. Tammany Parish Hospital) as of and for the years ended December 31, 2019 and 2018, and have issued our report thereon, dated April 28, 2020, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to April 28, 2020.

The accompanying schedule of compensation, benefits, and other payments to agency head 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 audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 financial statements as a whole.

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A Professional Accounting Corporation

Metairie, LA
April 28, 2020

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a ST. TAMMANY PARISH HOSPITAL)

Schedule of Compensation, Benefits, and Other Payments
For the Year Ended December 31, 2019

Agency Head
Joan Coffman, President and Chief Executive Officer

Purpose	Amount
Salary	$396,207
Benefits - Insurance	$10,203
Benefits - Retirement	$199,356
Benefits - Other	$0
Car Allowance	$9,000
Vehicle Provided by Government	$0
Per Diem	$0
Reimbursements	$0
Travel	$0
Registration Fees	$2,485
Conference Travel	$1,353
Continuing Professional Education Fees	$0
Housing	$32,572
Unvouchered Expenses	$0
Special Meals	$0

LaPorte, APAC
111 Veterans Blvd. | Suite 600
Metairie, LA 70005
504.835.5522 | Fax 504.835.5535
LaPorte.com

AGREED-UPON PROCEDURES REPORT
St. Tammany Parish Hospital Service District No. 1
d/b/a St. Tammany Health System

Independent Accountant's Report
On Applying Agreed-Upon Procedures

For the Year Ended December 31, 2019

St. Tammany Parish Hospital Service District No. 1
d/b/a St. Tammany Health System
the Legislative Auditor, State of Louisiana

We have performed the procedures enumerated below as they are a required part of the engagement. We are required to perform each procedure and report the results, including any exceptions. Management is required to provide a corrective action plan that addresses all exceptions noted. For any procedures that do not apply, we have marked "not applicable".

Management of St. Tammany Parish Hospital Service District No. 1, d/b/a St. Tammany Health System (the System), is responsible for its financial records, establishing internal controls over financial reporting, and compliance with applicable laws and regulations. These procedures were agreed to by management of the System and the Legislative Auditor, State of Louisiana, solely to assist the users in assessing certain controls and in evaluating management's assertions about the System's compliance with certain laws and regulations during the year ended December 31, 2019, in accordance with Act 774 of 2014 Regular Legislative Session. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and results are as follows:

Payroll and Personnel

1. Obtain existing written documentation (e.g., policy manual, written procedure) and report whether the entity has a process specifically defined (identified as such by the entity) to periodically review changes to leave records by a person without access to change said leave records.

   Results: The System's existing written documentation does not have a process specifically defined to periodically review changes to leave records by a person without access to change said leave records.

Debt Service

1. Obtain and inspect the entity's written policies and procedures over debt service and observe that they address (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

   Results: No exceptions noted.

2. Obtain a listing of bonds/notes issued during the fiscal period and management's representation that the listing is complete. Select all bonds/notes on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each bond/note issued.

   Results: No exceptions noted.

3. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants (including contingency funds, short-lived asset funds, or other funds required by the debt covenants).

   Results: No exceptions noted.

Public Bid Law

1. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).

   Results: No exceptions noted. Only one location processed payments for the fiscal period.

2. For each location selected under #1 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete.

   Results: No exceptions noted.

3. Aggregate the disbursements by vendor and select the five vendors that were paid the most money during the fiscal period (exclude vendor payments for professional service contracts and purchases on state contract).

   Results: No exceptions noted.

4. Compare total payments for each vendor to the thresholds set in the Louisiana Public Bid Law (R.S. 38:2211-2296) or Procurement Code (R.S. 39:1551-39:1755), if adopted.

   Results: No exceptions noted.

5. For each vendor that met the legal thresholds in #4 above, obtain supporting vendor and entity documentation, and observe that purchases were bid in accordance with the Louisiana Public Bid Law or Procurement Code, if adopted.

   Results: No exceptions noted.

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

1. Obtain and inspect the entity's written policies and procedures over travel and expense reimbursements and observe that they address (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.

   Results: The System's written policies and procedures over travel and expense reimbursements addressed Items (1), (3) and (4). For Item (2), the policies did not address dollar thresholds for lodging or meals.

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

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

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

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

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

   Results: No exceptions noted.

Information Technology Disaster Recovery/Business Continuity

1. Obtain and inspect the entity's written policies and procedures over information technology disaster recovery/business continuity (or the equivalent contractual terms if IT services are outsourced) and observe that they address (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.

   Results: No exceptions noted.

2. Perform the following sub-procedures, verbally discuss the results with management, and report "We performed the procedure and discussed the results with management."

   a) Obtain and inspect the entity's most recent documentation that it has backed up its critical data (if no written documentation, inquire of personnel responsible for backing up critical data) and observe that such backup occurred within the past week. If backups are stored on a physical medium (e.g., tapes, CDs), observe evidence that backups are encrypted before being transported.

   Results: No exceptions noted. We performed the procedures and discussed the results with management.

b) Obtain and inspect the entity's most recent documentation that it has tested/verified that its backups can be restored (if no written documentation, inquire of personnel responsible for testing/verifying backup restoration) and observe evidence that the test/verification was successfully performed within the past 3 months.

Results: No exceptions noted. We performed the procedures and discussed the results with management.

c) Obtain a listing of the entity's computers currently in use, and their related locations, and management's representation that the listing is complete. Randomly select 5 computers and observe while management demonstrates that the selected computers have active antivirus software and that the antivirus, operating system, and accounting system software are the most recent versions available (i.e. up-to-date).

Results: No exceptions noted. We performed the procedures and discussed the results with management.

Sexual Harassment

1. Obtain and inspect the entity's written sexual harassment policies and procedures and observe that they address all requirements of Louisiana Revised Statutes (R.S.) 42:342-344, including agency responsibilities and prohibitions; annual employee training; and annual reporting requirements.

   Results: The System's written sexual harassment policies and procedures addressed all requirements of Louisiana Revised Statues 42:342-344, with the exception of annual reporting requirements. As reported in the Results for Procedure 4 below, the System did issue its annual sexual harassment report without exception.

2. Obtain a listing of employees/elected officials/board members employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/elected officials/board members, obtain sexual harassment training documentation from management, and observe that the documentation demonstrates each employee/elected official/board member completed at least one hour of sexual harassment training during the calendar year.

   Results: One of the five employees/elected officials/board members selected had not completed at least one hour of sexual harassment training during the calendar year.

3. Observe that the entity has posted its sexual harassment policy and complaint procedure on its website (or in a conspicuous location on the entity's premises if the entity does not have a website).

   Results: No exceptions noted.

4. Obtain the entity's annual sexual harassment report for the current fiscal period, observe that the report was dated on or before February 1, and observe that it includes the applicable requirements of R.S. 42:344.

   Results: No exceptions noted.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. We were not engaged to perform, and did not perform, an examination or review, the objective of which would be the expression of an opinion or conclusion. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures; other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of management St. Tammany Parish Hospital Service District No. 1, d/b/a St. Tammany Health System, and the Legislative Auditor, State of Louisiana, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

LaPorte

A Professional Accounting Corporation

Metairie, LA
June 25, 2020

President/Chief Executive Officer
Joan M. Coffman, FACHE

St. Tammany
HEALTH SYSTEM

June 29, 2020

Management Response to the 2019 AUP Procedures where issues were noted.

Payroll and Personnel

1. Obtain existing written documentation (e.g., policy manual, written procedure) and report whether the entity has a process specifically defined (identified as such by the entity) to periodically review changes to leave records by a person without access to change said leave records.

Results: The System's existing written documentation does not have a process specifically defined to periodically review changes to leave records by a person without access to change said leave records.

Management Response:

Policy has been revised to reflect processes in place to ensure no unauthorized changes are made to the Leave records. Access to make changes are limited to a minimal number of users and controlled by user security level. Hospital has also added an additional oversight by Internal Audit department to monitor all changes to PTO balances on a quarterly basis to ensure no inappropriate access or changes have been made.

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

1. Obtain and inspect the entity's written policies and procedures over travel and expense reimbursements and observe that they address (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.

Results: The System's written policies and procedures over travel and expense reimbursements addressed Items (1), (3) and (4). For Item (2), the policies did not address dollar thresholds for lodging or meals.

Management Response:

Management has reviewed its policy regarding management and approval of travel related expenses and feels appropriate controls are in place to ensure travel related expenses are reasonable.

Sexual Harassment

1. Obtain and inspect the entity's written sexual harassment policies and procedures and observe that they address all requirements of Louisiana Revised Statutes (R.S.) 42:342-344, including agency responsibilities and prohibitions; annual employee training; and annual reporting requirements.

Results: The System's written sexual harassment policies and procedures addressed all requirements of Louisiana Revised Statues 42:342-344, with the exception of annual reporting requirements. As reported in the Results for Procedure 4 below, the System did issue its annual sexual harassment report without exception.

Management Response:

Management has revised its existing policy to add the annual reporting requirements.

2. Obtain a listing of employees/elected officials/board members employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/elected officials/board members, obtain sexual harassment training documentation from management, and observe that the documentation demonstrates each employee/elected official/board member completed at least one hour of sexual harassment training during the calendar year.

Results: One of the five employees/elected officials/board members selected had not completed at least one hour of sexual harassment training during the calendar year.

Management Response:

The Hospital has a process to have all employees go through the training within first 90 days of employment and annually, thereafter. The compliance rate for 2019 was > 91% of all employees. Difficulty in reaching 100% is due to the large number of per diem and part time employees that are not consistently on campus. Hospital is working to improve process to increase compliance percentage to 100%.

Sincerely,

Sandra DiPietro

Sandra DiPietro
Chief Financial Officer