

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

Financial Report  
December 31, 2018 and 2017



## Contents

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<b>Management's Discussion and Analysis</b>	i - viii
<b>Independent Auditor's Report</b>	1 - 2
<b>Basic Financial Statements</b>	
Statements of Net Position - St. Tammany Parish Hospital	3 - 4
Statements of Revenues, Expenses, and Changes in Net Position - St. Tammany Parish Hospital	5
Statements of Cash Flows - St. Tammany Parish Hospital	6 - 7
Statements of Financial Position - St. Tammany Hospital Foundation	8
Statements of Activities - St. Tammany Hospital Foundation	9 - 10
Statements of Cash Flows - St. Tammany Hospital Foundation	11
Notes to Financial Statements	12 - 46
<b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	47 - 48

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

**Management's Discussion and Analysis**

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This section of St. Tammany Parish Hospital Service District No. 1's (the Hospital) annual financial report presents background information and our analysis of the Hospital's financial performance during the fiscal year that ended on December 31, 2018. 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 Hospital'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 Hospital's financial statements to emphasize that it is legally separate from the Hospital. The Foundation is a not-for-profit organization supporting the Hospital 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 Hospital. In 2017, the Hospital created the St. Tammany Hospital Accountable Care Organization, L.L.C. (STH-ACO), of which the Hospital 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 Hospital 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 Hospital's activities.

The Statements of Net Position include the Hospital'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 Hospital's creditors (liabilities) for both the current year and the prior year. It also provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

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 Hospital's operations over the past two years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources.

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

**Management's Discussion and Analysis**

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The primary purpose of the Statements of Cash Flows is to provide information about the Hospital'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 Hospital's change in net position was approximately \$36.3 million in 2018 and \$23.1 million in 2017. Net Position showed an increase of 12.8% in 2018 and 8.8% in 2017.

The assets and deferred outflows of resources of the Hospital 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 Hospital's net investment in capital assets.

The assets and deferred outflows of resources of the Hospital exceeded liabilities at the close of the 2017 fiscal year by \$285.1 million. Of that amount, \$183.4 million (unrestricted net position) was available to meet ongoing obligations to the Hospital District's patients and creditors, \$13.2 million was restricted for debt service and self-insured funding arrangements, \$27.2 million was restricted for capital projects and \$61.2 million was the Hospital's net investment in capital assets.

In 2018, net patient service revenue increased by \$37.4 million, or 12.9%, from 2017. In 2017, net patient service revenue increased by \$9.9 million, or 3.5%, from 2016. Operating expenses increased by \$20.3 million, or 7.2%, in 2018, and \$8.6 million, or 3.1%, in 2017. Other operating revenue decreased by \$4.1 million from 2017 to 2018 and increased \$3.0 million from 2016 to 2017. In total, the Hospital experienced an increase in the change in net position by approximately \$13.3 million, as compared to the fiscal year 2017 operations.

**Financial Analysis of the Hospital**

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the Hospital's activities. These two statements report the net position of the Hospital 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 Hospital. 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.

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

**Management's Discussion and Analysis**

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**Net Position**

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

	December 31,		
	2018	2017	2016
	(Dollars in Thousands)		
<b>Assets:</b>			
Current and other assets	<b>\$ 356,495</b>	\$ 281,881	\$ 266,187
Capital assets	<b>134,118</b>	128,329	127,901
Total assets	<b>490,613</b>	410,210	394,088
Deferred outflows of resources	<b>522</b>	354	494
Total assets and deferred outflows	<b>\$ 491,135</b>	\$ 410,564	\$ 394,582
<b>Liabilities:</b>			
Long-term debt outstanding	<b>\$ 132,294</b>	\$ 94,656	\$ 103,495
Other liabilities	<b>37,390</b>	30,797	29,028
Total liabilities	<b>169,684</b>	125,453	132,523
<b>Net position:</b>			
Net investment in capital assets	<b>75,715</b>	61,195	58,738
Restricted	<b>75,926</b>	40,517	46,844
Unrestricted	<b>169,810</b>	183,399	156,477
Total net position	<b>321,451</b>	285,111	262,059
Total liabilities and net position	<b>\$ 491,135</b>	\$ 410,564	\$ 394,582

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

**Management's Discussion and Analysis**

**Summary of Revenues, Expenses, and Changes in Net Position**

The following table presents a summary version of the Hospital's historical revenues and expenses for the years ended December 31, 2018, 2017, and 2016:

	Years Ended December 31,		
	2018	2017	2016
	(Dollars in Thousands)		
Revenue			
Net patient service revenue net of provision for bad debts of \$15,369 in 2018, \$15,655 in 2017, and \$16,995 in 2016	<b>\$ 327,244</b>	\$ 289,829	\$ 279,923
Other operating revenue	<b>12,669</b>	16,741	13,707
Total operating revenue	<b>339,913</b>	306,570	293,630
Expenses			
Maintenance and operation expenses	<b>289,239</b>	267,961	259,783
Depreciation	<b>13,712</b>	14,740	14,333
Total operating expenses	<b>302,951</b>	282,701	274,116
Operating net income	<b>36,962</b>	23,869	19,514
Investment income and gains and losses	<b>3,504</b>	1,728	1,095
Interest expense	<b>(4,268)</b>	(2,649)	(2,319)
Gain (loss) on disposal of capital assets	<b>9</b>	(48)	27
Excess of revenues over expenses before capital contributions	<b>36,207</b>	22,900	18,317
Capital contributions	<b>133</b>	152	3,070
Increase in net position	<b>36,340</b>	23,052	21,387
Total net position - beginning of year	<b>285,111</b>	262,059	240,672
Total net position - end of year	<b>\$ 321,451</b>	\$ 285,111	\$ 262,059

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

**Management's Discussion and Analysis**

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The information below summarizes the Hospital's basic Statements of Revenues, Expenses, and Changes in Net Position for 2018 and 2017:

**Operating Revenue**

During fiscal year 2018 and 2017, the Hospital derived approximately 94.5% and 95.3%, 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 Hospital'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, 2018 and 2017:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Medicare	26%	27%
Medicaid	14%	14%
Managed Care and Commercial Insurance	59%	58%
Self-Pay	1%	1%
Total gross charges	<u>100%</u>	<u>100%</u>

**Operating and Financial Performance**

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

- During 2018, the Hospital had patient days and admissions of 53,653 and 12,075, respectively. During 2017, the Hospital 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%.

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

**Management's Discussion and Analysis**

The highlights of the Hospital's Statements of Revenues, Expenses, and Changes in Net Position from 2016 to 2017 include:

- During 2017, the Hospital had patient days and admissions of 52,883 and 11,955, respectively. During 2016, the Hospital had patient days and admissions of 48,814 and 11,087, respectively. This is an increase in patient days of 8.3% and 7.8% in admissions from fiscal year 2016.
- Observation patient volume increased 512 patients, or 11.2%, in 2017. Net "Bedded Patients" (inpatient plus observation) went from 15,656 in 2016 to 17,036 in 2017, or a "Bedded Patient" increase of 1,380 admissions.
- Outpatient visits (including Home Health, Hospice, and Physicians) were 378,560. This is an increase of 9.7% from prior year.
- Emergency room visits were 47,736, an increase of 13.3% from fiscal year 2016.
- Net patient service revenue increased \$9.9 million, or 3.5%, in 2017.
- Employee compensation increased \$11.4 million, an increase of 8.0%.
- Supplies and other professional services decreased approximately 2.8%.

**2018 Budget to Actual Comparison (in Thousands)**

In comparing actual results of operations versus budgeted 2018 results, the following is noted:

	For the Year Ended December 31,		Variance Positive (Negative)
	Budget 2018	Actual 2018	
<b>Revenues:</b>			
Net patient service revenue net of provision for bad debts of \$18,530 budget and \$15,369 actual	\$ 298,619	\$ 327,244	\$ 28,625
Other operating revenue	9,702	12,669	2,967
Total revenues	<u>308,321</u>	<u>339,913</u>	<u>31,592</u>
<b>Operating expenses:</b>			
Salaries, wages, and benefits	155,557	163,725	(8,168)
Supplies and other	96,686	102,757	(6,071)
Professional and contractual services	20,967	22,757	(1,790)
Depreciation	14,544	13,712	832
Total operating expenses	<u>287,754</u>	<u>302,951</u>	<u>(15,197)</u>
Non-operating income (expenses), net	<u>(1,651)</u>	<u>(755)</u>	<u>896</u>
Excess of revenues over expenses	<u>\$ 18,916</u>	<u>\$ 36,207</u>	<u>\$ 17,291</u>

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

**Management's Discussion and Analysis**

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**The Hospital's Cash Flows**

Changes in the Hospital'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 2018.

**Capital Assets**

The table below details the changes in the Hospital's capital assets during the year ended December 31, 2018:

**Capital Assets (in Thousands)**

	<u>December 31,</u>		Dollar Change	Percent Change
	<u>2018</u>	<u>2017</u>		
Land and improvements	\$ 10,713	\$ 9,420	\$ 1,293	14%
Buildings	136,450	135,044	1,406	1%
Equipment	130,425	124,472	5,953	5%
Construction in progress	9,472	3,505	5,967	170%
Subtotal	287,060	272,441	14,619	5%
Less: accumulated depreciation and amortization	<u>(152,942)</u>	<u>(144,112)</u>	<u>(8,830)</u>	<u>6%</u>
Capital Assets, net	<u>\$134,118</u>	<u>\$ 128,329</u>	<u>\$ 5,789</u>	<u>5%</u>

- 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.
- Net Capital Assets increased by approximately \$428,000 during 2017. Expenditures of \$1.8 million are related to expansion and enhancement projects of the physical buildings. Expenditures of \$2.8 million are related to replacement of routine equipment and enhancement of information systems. Expenditures of \$3.0 million are related to the beginning of projects for the parking lot expansion, the master facility expansion, the neuro ICU, and the pharmacy renovations.

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

**Management's Discussion and Analysis**

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**Projected Capital Expenditures for FY 2019**

The Hospital projects spending \$36.8 million on capital projects during FY 2019. Of this amount, \$27.5 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**

**2018 Long-Term Debt**

During 2018, the Hospital 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 Hospital had \$132.3 million in long-term debt. Total long-term debt represents 80.0% of the Hospital's total liabilities as of year-end.

**2017 Long-Term Debt**

At year-end, the Hospital had \$94.7 million in long-term debt. Total long-term debt represents 75.5% of the Hospital's total liabilities as of year-end.

**Economic Factors and Next Year's Budget**

The Hospital's Board and Management considered many factors when setting the fiscal year 2019 budget. Of primary importance in setting the 2018 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 Hospital Financial Manager**

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

## 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 Parish Hospital) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise St. Tammany Parish Hospital's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express 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.

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 Parish Hospital as of December 31, 2018 and 2017, 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 26, 2019, on our consideration of St. Tammany Parish Hospital'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 Parish Hospital'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 Parish Hospital's internal control over financial reporting and compliance.



A Professional Accounting Corporation

Metairie, LA  
April 26, 2019

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

**Statements of Net Position**  
**December 31, 2018 and 2017 (In Thousands)**

<b>Assets and deferred outflows of resources</b>	<b>2018</b>	<b>2017</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 74,228	\$ 52,625
Investments	151,023	140,345
Noncurrent cash and investments required for current liabilities	16,159	10,156
Patient accounts receivable, net of allowance for doubtful accounts of \$18,045 in 2018 and \$17,610 in 2017	38,414	28,988
Inventories	7,148	6,215
Prepaid expenses and other receivables	4,657	8,339
<b>Total current assets</b>	<b>291,629</b>	<b>246,668</b>
<b>Noncurrent cash and investments:</b>		
Held by trustee under Construction Fund	73,369	27,167
Held by trustee under bond indenture	1,738	4,521
Held by trustee under bond ordinances	9	8,019
Designated by board for capital improvements and facility enhancements	3,000	3,000
Designated by board for Community ER Services	1,071	1,061
Held by others for self-insured funding arrangements	810	810
	<b>79,997</b>	<b>44,578</b>
Less: noncurrent cash and investments required for current liabilities	<b>(16,159)</b>	<b>(10,156)</b>
<b>Total noncurrent cash and investments</b>	<b>63,838</b>	<b>34,422</b>
<b>Capital assets:</b>		
Land and improvements	10,713	9,420
Buildings	136,450	135,044
Equipment	130,425	124,472
Construction in progress	9,472	3,505
Less: accumulated depreciation	<b>(152,942)</b>	<b>(144,112)</b>
<b>Total capital assets, net</b>	<b>134,118</b>	<b>128,329</b>
<b>Other assets</b>	<b>1,028</b>	<b>791</b>
<b>Total assets</b>	<b>490,613</b>	<b>410,210</b>
<b>Deferred outflows of resources:</b>		
Loss on advance refunding, net of accumulated amortization of \$2,061 and \$1,837, respectively	522	354
<b>Total assets and deferred outflows of resources</b>	<b>\$ 491,135</b>	<b>\$ 410,564</b>

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

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

**Statements of Net Position (Continued)**  
**December 31, 2018 and 2017 (In Thousands)**

<b>Liabilities and net position</b>	<b>2018</b>	<b>2017</b>
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 19,756	\$ 12,294
Accrued employee compensation	7,503	6,518
Accrued vacation	4,747	5,742
Settlements due to Medicare and Medicaid intermediaries	5,384	6,243
Amounts due within one year on long-term debt	3,281	9,062
<b>Total current liabilities</b>	<b>40,671</b>	<b>39,859</b>
 <b>Long-term debt, net of current maturities</b>	 <b>129,013</b>	 <b>85,594</b>
 <b>Total liabilities</b>	 <b>169,684</b>	 <b>125,453</b>
 <b>Net position:</b>		
Net investment in capital assets	75,715	61,195
Restricted for debt service	1,747	12,540
Restricted for capital projects	73,369	27,167
Restricted for self-insured funding arrangements	810	810
Unrestricted	169,810	183,399
<b>Total net position</b>	<b>321,451</b>	<b>285,111</b>
 <b>Total liabilities and net position</b>	 <b>\$ 491,135</b>	 <b>\$ 410,564</b>

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

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

**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended December 31, 2018 and 2017 (In Thousands)**

	2018	2017
<b>Operating revenues:</b>		
Net patient service revenue, net of provision for bad debts of \$15,369 in 2018 and \$15,655 in 2017	\$ 327,244	\$ 289,829
Other revenue	12,669	16,741
<b>Total operating revenues</b>	<b>339,913</b>	<b>306,570</b>
<b>Operating expenses:</b>		
Salaries, wages, and benefits	163,725	154,344
Supplies and other	102,757	94,126
Professional and contractual services	22,757	19,491
Depreciation	13,712	14,740
<b>Total operating expenses</b>	<b>302,951</b>	<b>282,701</b>
<b>Income from operations</b>	<b>36,962</b>	<b>23,869</b>
<b>Non-operating revenues (expenses):</b>		
Investment income and gains and losses, net	3,504	1,728
Interest expense	(4,268)	(2,649)
Gain (loss) on disposal of capital assets	9	(48)
<b>Total non-operating expenses, net</b>	<b>(755)</b>	<b>(969)</b>
<b>Excess of revenues over expenses before capital contributions</b>	<b>36,207</b>	<b>22,900</b>
<b>Capital contributions</b>	<b>133</b>	<b>152</b>
<b>Change in net position</b>	<b>36,340</b>	<b>23,052</b>
<b>Net position, beginning of year</b>	<b>285,111</b>	<b>262,059</b>
<b>Net position, end of year</b>	<b>\$ 321,451</b>	<b>\$ 285,111</b>

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

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

**Statements of Cash Flows**

**For the Years Ended December 31, 2018 and 2017 (In Thousands)**

	2018	2017
<b>Cash flows from operating activities:</b>		
Cash received from patient services	\$ 329,628	\$ 311,535
Cash paid to or on behalf of employees	(163,666)	(150,610)
Cash paid for supplies and services	(115,777)	(120,718)
<b>Net cash provided by operating activities</b>	<b>50,185</b>	<b>40,207</b>
<b>Cash flows from capital and related financing activities:</b>		
Capital contributions	133	152
Purchase of capital assets	(19,492)	(15,215)
Proceeds from issuance of debt	88,798	-
Principal payments on long-term debt	(51,160)	(8,839)
Interest payments	(4,268)	(2,649)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>14,011</b>	<b>(26,551)</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale and maturities of investments and noncurrent cash equivalents	-	18,236
Purchases of investments and noncurrent cash equivalents	(46,097)	(55,426)
Investment interest received	3,504	1,727
<b>Net cash used in investing activities</b>	<b>(42,593)</b>	<b>(35,463)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>21,603</b>	<b>(21,807)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>52,625</b>	<b>74,432</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 74,228</b>	<b>\$ 52,625</b>

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

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

**Statements of Cash Flows (Continued)**  
**For the Years Ended December 31, 2018 and 2017 (In Thousands)**

	2018	2017
<b>Reconciliation of income from operations to net cash provided by operating activities</b>		
Income from operations	\$ 36,962	\$ 23,869
Adjustments to reconcile income from operations to net cash provided by operating activities		
Provision for bad debts	15,369	15,655
Depreciation	13,712	14,740
Amortization of deferred loss on advance refunding	223	140
Changes in operating assets and liabilities:		
Patient accounts receivable	(24,795)	(10,528)
Inventories, prepaid expenses, and other receivables	2,749	(5,438)
Other assets	(628)	-
Accounts payable and accrued expenses	7,462	202
Accrued employee compensation and vacation	(10)	1,729
Net settlements due to Medicare and Medicaid intermediaries	(859)	(162)
<b>Net cash provided by operating activities</b>	<b>\$ 50,185</b>	<b>\$ 40,207</b>

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, 2018 and 2017**

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 1,016,843	\$ 4,922,358
Certificates of deposit	4,906,795	476,601
Interest receivable	20,447	594
Pledges receivable, net of allowance of \$5,752 and \$7,102, as of December 31, 2018 and 2017, respectively	415,668	410,540
Other receivable	1,952	523
Marketable securities	-	115,753
Interest in charitable remainder trust	-	187,871
Other assets	88,440	88,440
Restricted cash - donor endowment funds	243,037	237,078
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 6,693,182</b>	<b>\$ 6,439,758</b>
<b>Liabilities and net assets</b>		
<b>Liabilities</b>		
Annuities payable	\$ 58,519	\$ 83,206
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>58,519</b>	<b>83,206</b>
<b>Net assets</b>		
Without donor restrictions		
Undesignated	117,962	36,872
Board designated-endowment	2,675,788	2,398,924
With donor restrictions		
Designated by donors	3,598,396	3,683,741
Designated by the board for endowment	242,517	237,015
	<hr/>	<hr/>
<b>Total net assets</b>	<b>6,634,663</b>	<b>6,356,552</b>
	<hr/>	<hr/>
<b>Total liabilities and net assets</b>	<b>\$ 6,693,182</b>	<b>\$ 6,439,758</b>

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
<b>Revenues, gains, and other support</b>			
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 asset reclassification	(535)	535	-
Net assets released from restrictions	985,969	(985,969)	-
<b>Total revenues, gains, and other support</b>	<b>1,130,754</b>	<b>(79,843)</b>	<b>1,050,911</b>
<b>Expenses</b>			
Program services Contributions awarded/distributed	772,800	-	772,800
<b>Total expenses</b>	<b>772,800</b>	<b>-</b>	<b>772,800</b>
<b>Change in net assets</b>	<b>357,954</b>	<b>(79,843)</b>	<b>278,111</b>
<b>Net assets, beginning of year</b>	<b>2,435,796</b>	<b>3,920,756</b>	<b>6,356,552</b>
<b>Net assets, end of year</b>	<b>\$ 2,793,750</b>	<b>\$ 3,840,913</b>	<b>\$ 6,634,663</b>

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, 2017**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues, gains, and other support</b>			
Contributions	\$ 140,092	\$ 898,726	\$ 1,038,818
Investment return, net	27,354	-	27,354
Change in value of			
split-interest agreements	(6,146)	(3,846)	(9,992)
Net asset reclassification	(1,227)	1,227	-
Net assets released from restrictions	616,177	(616,177)	-
	<hr/>	<hr/>	<hr/>
<b>Total revenues, gains, and other support</b>	776,250	279,930	1,056,180
<b>Expenses</b>			
Program services	730,554	-	730,554
	<hr/>	<hr/>	<hr/>
<b>Total expenses</b>	730,554	-	730,554
	<hr/>	<hr/>	<hr/>
<b>Change in net assets</b>	45,696	279,930	325,626
<b>Net assets, beginning of year</b>	2,390,100	3,640,826	6,030,926
	<hr/>	<hr/>	<hr/>
<b>Net assets, end of year</b>	\$ 2,435,796	\$ 3,920,756	\$ 6,356,552
	<hr/>	<hr/>	<hr/>

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, 2018 and 2017**

	2018	2017
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 278,111	\$ 325,626
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for uncollectible pledges	650	-
Unrealized and realized losses (gains), net	1,519	(17,690)
Donation of land	-	106,610
(Increase) decrease in:		
Pledges receivable	(5,778)	64,210
Interest receivable	(19,853)	718
Other receivables	(1,429)	32
Assets held in charitable remainder trusts	187,871	(632)
Increase (decrease) in:		
Change in present value of gift annuities	8,649	10,625
<b>Net cash provided by operating activities</b>	<b>449,740</b>	<b>489,499</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	114,234	-
Net (increase) decrease in certificates of deposit	(4,430,194)	379,590
<b>Net cash (used in) provided by investing activities</b>	<b>(4,315,960)</b>	<b>379,590</b>
<b>Cash flows from financing activities</b>		
Beneficiary distributions for gift annuities	(33,336)	(9,772)
Increase in cash restricted for donor endowment funds	(5,959)	(4,509)
<b>Net cash used in financing activities</b>	<b>(39,295)</b>	<b>(14,281)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(3,905,515)</b>	<b>854,808</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>4,922,358</b>	<b>4,067,550</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,016,843</b>	<b>\$ 4,922,358</b>

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

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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**Note 1. Organization and Significant Accounting Policies**

**Nature of Business:**

St. Tammany Parish Hospital (the Hospital) 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 Hospital is exempt from Federal income taxes under Section 115 of the Internal Revenue Code. The governing authority of the District is the St. Tammany Parish Hospital Board of Commissioners. The St. Tammany Parish Council appoints members of the Hospital's Board of Commissioners.

The financial statements of the District include the Hospital 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 Hospital. STMS, PMC, STQN, and STPN are not exempt from Federal taxation. No income taxes were paid or owed for the years ended December 31, 2017 and 2016, by STMS, PMC, STQN, or STPN. The Hospital 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.

St. Tammany Medical Services formed in 1986 to own and lease medical facilities and equipment.

Practice Management Consultants (PMC) was formed in 2010 to provide a variety of management services to physicians.

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

St. Tammany Physician Network was formed in 1993 to employ primary care physicians. STPN provides billing and administrative services for the employed physicians.

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

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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**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 Hospital. 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, 2018 and 2017. Once there is activity, STH-ACO will be presented as a blended component unit, whose financial activity is included with the activities of the Hospital.

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 Hospital. The Board of the Foundation is self-perpetuating and consists primarily of citizens of St. Tammany Parish. Although the Hospital 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 Hospital. Because these resources held by the Foundation have historically been for the benefit of the Hospital 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 August of 2018, the Hospital entered into a joint venture agreement (the 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 Hospital was required to fund \$237,000, which resulted in a 30% ownership interest in NSR Louisiana, LLC. The Hospital's ownership interest is included in Other Assets on the Statement of Financial Position. Through December 31, 2018, NSR Louisiana, LLC has not had significant operating activities.

**Significant Accounting Policies:**

Basis of Presentation: The financial statements include all funds of the above-mentioned entities. The Hospital 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.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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**Note 1. Organization and Significant Accounting Policies (Continued)**

Accounting Standards: The Hospital 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 Hospital'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.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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**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 Hospital'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 Hospital incurred losses in connection with the advance refunding of the Hospital'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 \$2,030,000 and \$1,837,000 at December 31, 2018 and 2017, 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 Hospital'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 Hospital'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.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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**Note 1. Organization and Significant Accounting Policies (Continued)**

Incentive Revenue - Electronic Health Records: The electronic health records incentive program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for incentive payments under both the Medicare and Medicaid programs to eligible health care entities that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under both the Medicare and Medicaid programs will be contingent upon the Hospital initially attesting to being a meaningful user of EHR technology and then continuing to meet escalating criteria, including other specific requirements that are applicable, for consecutive reporting periods. The final amount for any payment year is determined based upon an audit by the fiscal intermediary.

During the year ended December 31, 2017, the Hospital attested to Phase 2 of their being a meaningful user of EHR technology. As a result of this attestation, the Hospital received approximately \$586,000 of payments in fiscal year ended December 31, 2017. No payments were received during the fiscal year ended December 31, 2018. These payments are included in other revenue on the Statements Net of Revenues, Expenses, and Changes in Net Position.

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 Hospital 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 Hospital is exposed to certain credit risk. The Hospital 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 Hospital 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 \$15,369,000 and \$15,655,000, for the years ended December 31, 2018 and 2017, respectively.

Medicare and Medicaid Reimbursement Programs: The Hospital 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.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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**Note 1. Organization and Significant Accounting Policies (Continued)**

Medicare and Medicaid Reimbursement Programs: (Continued)

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 Hospital is paid a predetermined amount per procedure.

During 2013, the State outsourced part of the Medicaid program to third parties. The Hospital entered into contracts with the various Managed Medicaid providers. These contracts reimburse the Hospital using the same methodology of the State run program. In all cases, the Hospital 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.

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 \$2,133,000 and \$2,100,000, in 2018 and 2017, respectively.

Participation in Medicare's BPCIA Program: During 2018, the Hospital 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.

Grants and Contributions: From time to time, the Hospital 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.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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**Note 1. Organization and Significant Accounting Policies (Continued)**

Grants and Contributions: (Continued)

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.

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 Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Charity Care: The Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital 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 Hospital provided charity care of approximately \$4,925,000 and \$5,574,000, for the years ended December 31, 2018 and 2017, respectively, based upon charges foregone using established rates.

Employee Health and Workers' Compensation Insurance: The Hospital 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.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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**Note 1. Organization and Significant Accounting Policies (Continued)**

Recently Issued Accounting Principles: As of December 31, 2018, GASB has issued several statements not yet implemented by the Hospital. The statements, which might impact the Hospital, 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 Hospital's financial statements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

**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 is still evaluating the potential impact of adoption on the Hospital's financial statements. The requirements of this Statements are effective for reporting periods beginning after June 15, 2018.

**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. Management is still evaluating the potential impact of adoption on the Hospital's financial statements. The requirements of this Statements are effective for reporting periods beginning after December 15, 2019.

**Note 2. Cash, Cash Equivalents, and Investments**

**A. Hospital**

Louisiana statutes require that all of the Hospital'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, 2018 and 2017, the Hospital's bank balances (including cash and certificates of deposit) were entirely insured or collateralized by investments held by the Hospital's third-party agent in the Hospital's name. The Hospital's investments generally are reported at fair value, as discussed in Note 1.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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

**A. Hospital (Continued)**

At December 31, 2018 and 2017, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by a custodial bank or trust that is an agent of the Hospital:

Investment Type	Carrying Amount	Investment Maturities (in Years)		
		Less		
		Than 1	1 - 5	>5
<i>(amounts in thousands)</i>				
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	-	-
<b>Total</b>	<b>\$ 155,166</b>	<b>\$ 36,561</b>	<b>\$109,808</b>	<b>\$ 8,797</b>

Investment Type	Carrying Amount	Investment Maturities (in Years)		
		Less		
		Than 1	1 - 5	>5
<i>(amounts in thousands)</i>				
U.S. government security	\$ 5,392	\$ 2,992	\$ 2,400	\$ -
U.S. agency obligation	131,523	14,239	108,356	8,928
Municipal obligation	3,338	801	2,537	-
Certificates of deposit	3,902	3,902	-	-
<b>Total</b>	<b>\$ 144,155</b>	<b>\$ 21,934</b>	<b>\$113,293</b>	<b>\$ 8,928</b>

**Credit Risk:** The Hospital 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, 2018, the Hospital'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 Hospital's investments in Federal Agricultural Mortgage Corporation (FAMCA) securities which are unrated.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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

**A. Hospital (Continued)**

Concentration of Credit Risk: The Hospital places no limit on the amount it may invest in any one issuer. Issuers comprising 5 percent or more of the Hospital's investments at December 31, 2018 and 2017 were as follows:

Issuer	2018	2017
Federal Farm Credit Bureau	<b>32%</b>	25%
Federal Home Loan Bank	<b>27%</b>	27%
Federal Home Loan Mortgage Corporation	<b>21%</b>	23%
Federal National Mortgage Association	<b>13%</b>	16%

The fair values of deposits and investments included in the Hospital's Statements of Net Position as of December 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
Carrying amount		
Deposits	<b>\$ 150,082</b>	\$ 93,393
Investments	<b>155,166</b>	144,155
Total deposits and investments	<b>\$ 305,248</b>	\$ 237,548
Included in the following captions:		
Current assets:		
Cash and cash equivalents	<b>\$ 74,228</b>	\$ 52,625
Investments	<b>151,023</b>	140,345
Noncurrent cash and investments required for current liabilities	<b>16,159</b>	10,156
Noncurrent cash and investments:		
Under Construction Fund held by trustee	<b>73,369</b>	27,167
Under bond indenture held by trustee	<b>1,738</b>	4,521
Under bond ordinances held by trustee	<b>9</b>	8,019
By board for capital improvements and facility enhancements	<b>3,000</b>	3,000
By board for Community ER Services	<b>1,071</b>	1,061
By others for professional and other liability claims	<b>810</b>	810
Less: amount required for current liabilities	<b>(16,159)</b>	(10,156)
Total deposits and investments	<b>\$ 305,248</b>	\$ 237,548

Noncurrent cash and investments, as indicated above, include amounts with limitations and internal designations concerning their expenditure.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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

**A. Hospital (Continued)**

The terms of the Hospital'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 Hospital 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, 2018 and 2017, the Hospital has a \$575,000 certificate of deposit held as collateral against its self-insured portion of workers' compensation claims. At December 31, 2018 and 2017, the Hospital 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 and 2017, the Hospital 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, 2018 and 2017, has been designated by the Hospital'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 \$3,503,000 and \$1,728,000, for the years ended December 31, 2018 and 2017, respectively. Fluctuations in investment income are related to changes in investment levels and changes in market valuations.

**B. Foundation**

At December 31, 2018, the Foundation's investments consisted of certificates of deposit. At December 31, 2017, investments consist of mutual fund investments, fixed income securities, and stocks which are presented in the financial statements at fair value based on quoted prices in active markets. 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.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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

**B. Foundation (Continued)**

The Foundation's split-interest agreements at December 31, 2018 consists of seven charitable gift annuities. At December 31, 2017, the Foundations' split-interest agreements consisted of one charitable remainder trust and nine charitable gift annuities. The donors of the charitable gift annuities contributed those assets directly to the Foundation.

The charitable remainder trust provided for the payment of distributions of all income earned by the trust's investments to designated income beneficiaries over the life of those beneficiaries. At the end of the trust's term, 50% the remaining assets were available for the Foundation's use with the remaining 50% due to an unrelated organization. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation was recorded as a contribution with donor restrictions in the statement of activities in the period the trust was established. An asset representing the Foundation's interest in the charitable remainder trust was recognized at the present value of the expected future cash flow payments.

Changes in fair market value of the charitable remainder trust were reflected as changes in net assets in the Foundation's statements of activities. At December 31, 2017, the present value of the Foundation's estimated 50% interest in the trust's remainder totaled \$187,871 and was calculated using applicable mortality tables and an estimated discount rate of 2.6%. During 2018, the Foundation received its 50% share of the trust's remainder, which totaled \$232,546. The amount received in excess of the recorded present value, \$44,675, was recognized as a contribution without donor restrictions in the statement of activities for the year ended December 31, 2018.

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 \$59,000 and \$83,000, as of December 31, 2018 and 2017, respectively, are included in annuities payable in the Foundation's Statement of Financial Position.

**C. Fair Value Measurement**

The Hospital'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.

**ST. TAMMANY PARISH HOSITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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

**C. Fair Value Measurement (Continued)**

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 fair values of the beneficial interest in the charitable remainder trust is estimated at the fair value of the securities held in the trust as of December 31, 2017, prorated for the Foundation's share of the trust. The Foundation considers the measurement of its beneficial interest in the charitable remainder trust to be a Level 3 measurement within the hierarchy because even though that measurement is based on the unadjusted fair value of trust assets reported by the trustee, the Foundation will never receive those assets or have the ability to direct the trustee to redeem them. As further described in Note 2.B, Foundation, the trust distributed its remaining assets during 2018. The proceeds received by the Foundation are included in cash and cash equivalents.

The following table sets forth by level, within the fair value hierarchy, the Hospital's assets at fair value as of December 31, 2018 and 2017:

	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)
<b>Investments by fair value level</b>	<i>(amounts in thousands)</i>			
<b>Debt securities</b>				
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	-
<b>Total investments by fair value level</b>	<b>\$ 155,166</b>	<b>\$ 21,343</b>	<b>\$ 133,823</b>	<b>\$ -</b>
	12/31/2017	(Level 1)	(Level 2)	(Level 3)
<b>Investments by fair value level</b>	<i>(amounts in thousands)</i>			
<b>Debt securities</b>				
Certificates of deposit	\$ 3,902	\$ 3,902	\$ -	\$ -
U.S. Government Security	5,392	5,392	-	-
U.S. Agency Obligation	131,523	18,299	113,224	-
Municipal obligations	3,338	3,338	-	-
<b>Total investments by fair value level</b>	<b>\$ 144,155</b>	<b>\$ 30,931</b>	<b>\$ 113,224</b>	<b>\$ -</b>

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

**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 Foundation's assets at fair value as of December 31, 2018 and 2017:

	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)
Investments by fair value level	<i>(amounts in thousands)</i>			
Debt Securities				
Certificates of deposit	\$ 4,907	\$ 4,907	\$ -	\$ -
Total investments by fair value level	<u>\$ 4,907</u>	<u>\$ 4,907</u>	<u>\$ -</u>	<u>\$ -</u>
	12/31/2017	(Level 1)	(Level 2)	(Level 3)
Investments by fair value level	<i>(amounts in thousands)</i>			
Debt Securities				
Certificates of deposit	\$ 477	\$ 477	\$ -	\$ -
Equity Securities				
Mutual funds	116	116	-	-
Beneficial interest in charitable remainder trust	188	-	-	188
Total investments by fair value level	<u>\$ 781</u>	<u>\$ 593</u>	<u>\$ -</u>	<u>\$ 188</u>

**Note 3. Third-Party Payor Arrangements**

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. During the years ended December 31, 2018 and 2017, approximately 28% of the Hospital'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 Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2015. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through December 31, 2013.

The Hospital 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 charges, and prospectively determined daily rates.

**ST. TAMMANY PARISH HOSITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

**Note 4. Capital Assets**

A summary of changes in the Hospital'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	<u>8,831</u>	<u>11,880</u>	<u>(4,620)</u>	<u>16,091</u>
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	<u>(144,112)</u>	<u>(13,712)</u>	<u>4,882</u>	<u>(152,942)</u>
Total capital assets, being depreciated, net	<u>119,498</u>	<u>(1,471)</u>	<u>-</u>	<u>118,027</u>
Total	<u>\$ 128,329</u>	<u>\$ 10,409</u>	<u>\$ (4,620)</u>	<u>\$ 134,118</u>

Depreciation expense reported during the fiscal year ended December 31, 2018 and 2017, was approximately \$13,712,000 and \$14,740,000 (exclusive of amortization expense), respectively.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

**Note 4. Capital Assets (Continued)**

A summary of changes in the Hospital's capital assets during 2017 is as follows (in thousands):

	December 31, 2016	Additions	Transfers and Disposals	December 31, 2017
Capital assets, not being depreciated:				
Land	\$ 5,150	\$ 176	\$ -	\$ 5,326
Construction in progress	483	5,249	(2,227)	3,505
Total capital assets not being depreciated	5,633	5,425	(2,227)	8,831
Capital assets, being depreciated:				
Land improvements	4,094	-	-	4,094
Buildings and improvements	133,293	1,751	-	135,044
Equipment	121,677	10,382	(7,587)	124,472
Total capital assets being depreciated	259,064	12,133	(7,587)	263,610
Less: total accumulated depreciation	(136,796)	(14,740)	7,424	(144,112)
Total capital assets, being depreciated, net	122,268	(2,607)	(163)	119,498
Total	\$ 127,901	\$ 2,818	\$ (2,390)	\$ 128,329

**Note 5. Long-Term Debt**

The details and balances of long-term debt at December 31, 2018 and 2017, are presented below (in thousands):

	2018	2017
Hospital Revenue Bonds, Series 2018A	\$ 72,620	\$ -
Hospital Revenue Bonds, Series 2018B	12,285	-
Hospital Revenue and Refunding Bonds, Series 2011	-	24,700
Hospital Revenue Bonds, Series 2012	-	23,545
Hospital Revenue Bonds, Series 2015	9,569	12,411
Hospital Revenue Bonds, Series 2016	34,000	34,000
Hospital Revenue Bonds, Series 2018 Premium	3,820	-
Less: amounts due within one year	(3,281)	(9,062)
Total long-term debt	\$ 129,013	\$ 85,594

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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**Note 5. Long-Term Debt (Continued)**

Hospital Revenue and Refunding Bonds Series 2018A: On July 1, 2018, the Hospital 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 Hospital's campus, (b) refund approximately \$23,195,000 of the Hospital'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 Hospital 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 Hospital 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 Hospital'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 Hospital 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%.

Hospital Revenue and Refunding Bonds, Series 2011: On November 1, 2011, the Hospital issued \$55,080,000 of Hospital Revenue and Refunding Bonds, Series 2011 (Series 2011 Bonds), with interest rates ranging from a low of 2% through 2014 to a high of 4.5% in 2021. The proceeds of the Series 2011 Bonds were used to refund \$46,925,000 of outstanding 1998 Series Hospital Revenue and Refunding Bonds (1988 Series) and to pay off approximately \$6,980,000 of Hospital indebtedness, to fund a reserve fund and to pay the costs of issuing the Series 2011 Bonds. The Series 2011 Bonds and the interest thereon are limited obligations of the Hospital payable solely from and secured by a pledge of the Trust Estate, as defined in the indenture, including the Revenues, as defined. As noted within the disclosure of the Series 2018B Bonds, the 2018B Bonds advance refunded the outstanding balance of the Series 2011 Bonds.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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**Note 5. Long-Term Debt (Continued)**

Hospital Revenue Bonds, Series 2012: On December 11, 2012, the Hospital issued \$24,850,000 of tax-exempt Hospital Revenue Bonds, Series 2012 (Series 2012 Bonds), for the purpose of financing the cost of acquisition and construction of capital improvements and equipment, including, but not limited to funding an expansion to the emergency department, funding a deposit into a debt service reserve fund, and paying the costs of issuance of the Series 2012 bonds. The Series 2012 Bonds and the interest thereon are limited obligations of the Hospital payable solely from and secured by a pledge of the Trust Estate, as defined in the indenture, including the Revenues, as defined, in addition to the debt service reserve fund that the Hospital must maintain. The Series 2012 Bonds are issued on a complete parity with the outstanding Series 2012 Bonds.

The Series 2012 Bonds mature, unless sooner paid, on July 1, 2024, and shall bear interest at the rate of 2.70% per annum. The Series 2012 Bonds are subject to extraordinary optional and special redemption on any date prior to maturity. Those Series 2012 Bonds maturing on or after July 1, 2023 are subject to optional redemption prior to maturity, on any date on and after July 1, 2022, at the principal amount thereof and accrued interest to the redemption date. As noted within the disclosure of the Series 2018A Bonds, the 2018A Bonds refunded the outstanding balance of the Series 2011 Bonds.

Hospital Revenue Bonds, Series 2015: On March 1, 2015 the Hospital 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 Hospital, 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 Hospital 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, 2018 and 2017, the principal outstanding on the Series 2015 bonds was approximately \$9,569,000 and \$12,411,000, respectively.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

**Note 5. Long-Term Debt (Continued)**

Hospital Revenue Bonds, Series 2016: On September 30, 2016 the Hospital 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 Hospital. The Series 2016 Bonds and the interest thereon are limited obligations of the Hospital 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 Hospital'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, 2018 and 2017, the principal outstanding on the Series 2016 bonds was \$34,000,000.

Debt Covenants:

For all of its Bond Series, the Hospital 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, 2018, the Hospital was in compliance with the provisions of the Trust Indentures.

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
	<b>\$ 94,656</b>	<b>\$ 88,798</b>	<b>\$ (51,160)</b>	<b>\$ 132,294</b>	<b>\$ 3,281</b>

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

**Note 5. Long-Term Debt (Continued)**

A summary of changes in long-term debt during 2017 is as follows (in thousands):

	December 31, 2016	Additions/ Changes	Retirements/ Payments	December 31, 2017	Due Within One Year
Hospital Revenue Refunding Bonds, Series 2011	\$ 30,405	\$ -	\$ (5,705)	\$ 24,700	\$ 5,870
Hospital Revenue Bonds, Series 2012	23,885	-	(340)	23,545	350
Hospital Revenue Bonds, Series 2015	15,205	-	(2,794)	12,411	2,842
Hospital Revenue Bonds, Series 2016	34,000	-	-	34,000	-
	<u>\$ 103,495</u>	<u>\$ -</u>	<u>\$ (8,839)</u>	<u>\$ 94,656</u>	<u>\$ 9,062</u>

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
2019	\$ 2,989	\$ 3,818
2020	3,078	4,691
2021	3,127	4,638
2022	3,160	4,577
2023	3,215	4,521
2024-2028	17,005	21,658
2029-2033	17,920	19,940
2034-2038	20,560	16,129
2039-2043	25,750	10,928
2044-2048	31,670	4,736
	<u>\$ 128,474</u>	<u>\$ 95,636</u>

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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**Note 5. Long-Term Debt (Continued)**

A summary of interest cost and investment income on borrowed funds held by the Trustee under the Hospital Revenue and Refunding Bonds during the years ended 2018 and 2017, follows (in thousands):

	<u>2018</u>	<u>2017</u>
Interest cost:	<u>\$ 4,268</u>	<u>\$ 2,649</u>
Charged to non-operating expenses	<u>\$ 4,268</u>	<u>\$ 2,649</u>
Investment income:	<u>\$ 3,504</u>	<u>\$ 1,728</u>
Credited to non-operating income	<u>\$ 3,504</u>	<u>\$ 1,728</u>

**Note 6. Commitments**

Ochsner Joint Operating Agreement: On September 30, 2014, the Hospital signed a Joint Operating Agreement (JOA) with Ochsner Clinic Foundation (OCF) and Ochsner Health Systems (OHS), whereby the Hospital and OHS enter into and collaborate with OCF and OHS for the integration of their operations in a manner to enable the Hospital 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.

The Hospital 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 Hospital 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 year ended December 31, 2018 the Hospital owed OHS for the sharing of amounts earned for the period of operations, which is included on the Statement of Net Position. For the year ended December 31, 2017, OHS owed the Hospital for the sharing of amounts earned for the period of operations, which was included on the Statement of Net Position.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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**Note 6. Commitments (Continued)**

Leases: The Hospital 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 \$9,720,000 and \$8,832,000, for the years ended December 31, 2018 and 2017, respectively. The future minimum lease payments at December 31, 2018, for non-cancelable operating leases are as follows (in thousands):

2019	\$ 8,771
2020	8,390
2021	8,025
2022	7,389
2023	6,812
Thereafter	<u>14,187</u>
<b>Total</b>	<b><u>\$ 53,574</u></b>

**Note 7. Compensated Absences**

Employees of the Hospital are entitled to paid time off depending on their length of service and other factors. Accrued compensated absences included as accrued vacation on the Hospital's Statements of Net Position were approximately \$4,747,000 and \$5,742,000, as of December 31, 2018 and 2017, respectively.

**Note 8. Employee Benefit Plans**

Noncontributory Defined Contribution Plan:

The Hospital 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 matching contribution ranging from 0% 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, 2018 and 2017, contributions required under the Plan were approximately \$5,400,000 and \$4,814,000, respectively, which represents approximately 5.5% and 5.3% of covered payroll for each year, respectively. The total covered payroll for the years ended December 31, 2018 and 2017 was \$95,564,000 and \$87,853,000, respectively. After applying the effects forfeitures of non-vested accounts, contributions paid by the Hospital were approximately \$5,300,000 and \$4,684,000, respectively, for the years ended December 31, 2018 and 2017.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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**Note 8. Employee Benefit Plans**

Noncontributory Defined Contribution Plan (Continued):

Retirement expense included in salaries, wages, and benefits related to the Plan described above approximated \$4,597,000 and \$4,587,000, for the years ended December 31, 2018 and 2017, respectively.

Community Emergency Services Plan:

The Hospital also provides a Community Emergency Services Plan (CESP) to certain independent contractor physicians. The purpose of the CESP is to assist the Hospital in attracting and retaining highly qualified individuals to provide services to the Hospital under the Hospital'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.

Other Voluntary Retirement Plans:

The Hospital 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.

**ST. TAMMANY PARISH HOSITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

**Note 9. Foundation Net Assets (Continued)**

Net assets with donor restrictions consist of the following as of December 31, 2018 and 2017:

	2018	2017
Restricted for Life of Income Beneficiaries:		
Charitable Remainder Trust Interest	\$ -	\$ 187,871
<b>Total Time Restrictions</b>	<b>-</b>	<b>187,871</b>
Purpose Restrictions:		
Pediatrics	<b>1,192,172</b>	1,178,052
Hospice	<b>587,728</b>	479,017
Miscellaneous Directed Gifts	<b>503,005</b>	424,313
Cancer Center	<b>262,028</b>	393,321
Parenting Center	<b>298,798</b>	305,144
Healing Arts	<b>203,991</b>	210,454
Facility and Technology Expansion	<b>199,996</b>	137,502
Community Wellness	-	85,393
STPH Employee Benevolent Fund	<b>111,951</b>	83,599
Oncology	<b>63,041</b>	71,017
Education	<b>62,392</b>	58,861
Women's Pavilion	<b>58,466</b>	44,966
Employee Education	<b>19,196</b>	15,917
Building Expansion Initiative	<b>35,632</b>	8,314
<b>Total Purpose Restrictions</b>	<b>3,598,396</b>	<b>3,495,870</b>
<b>Total Net Assets with Donor Restrictions</b>	<b>\$ 3,598,396</b>	<b>\$ 3,683,741</b>

In addition, Net Assets With Donor Restrictions - Board Designated, consisted of donor restricted endowment funds totaling \$242,517 and \$237,015 as of December 31, 2018 and 2017, respectively.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

**Note 10. Foundation Endowment Composition**

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, 2018 and 2017, as follows:

	2018	2017
<b>Net Assets Released from Restrictions:</b>		
Cancer Center	\$ 428,132	\$ 390,334
Charitable Remainder Trust	187,871	-
Parenting Center	88,615	83,570
Pediatrics	9,088	42,171
STPH Employee Benevolent Fund	21,030	30,597
Healing Arts	121,478	28,045
Miscellaneous Directed Gifts	97,902	15,541
Hospice	4,084	14,617
Women's Pavilion	-	4,800
Oncology	17,896	4,002
Community Wellness	4,936	2,500
Facility and Technology Expansion	4,937	-
<b>Total Net Assets Released from Restrictions</b>	<b>\$ 985,969</b>	<b>\$ 616,177</b>

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.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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**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 Trustees 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 \$9,400 and \$8,900 as of December 31, 2018 and 2017, respectively. The deficiencies resulted from change in estimated life expectancies for the beneficiaries of the gift annuities included in the endowment.

**ST. TAMMANY PARISH HOSITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

**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, 2018 and 2017, is as follows:

2018	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment	\$ 2,675,788	\$ -	\$ 2,675,788
Donor restricted endowments	(9,387)	233,130	223,743
<b>Total</b>	<b>\$ 2,666,401</b>	<b>\$ 233,130</b>	<b>\$ 2,899,531</b>

2017	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment	\$ 2,398,924	\$ -	\$ 2,398,924
Donor restricted endowments	(8,852)	228,163	219,311
<b>Total</b>	<b>\$ 2,390,072</b>	<b>\$ 228,163</b>	<b>\$ 2,618,235</b>

A summary of the changes in the Foundation's endowment net assets for the year ended December 31, 2018 and 2017 is as follows:

2018	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	\$ 2,390,072	\$ 237,015	\$ 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
Reclassification	(535)	535	-
<b>Net assets, end of year</b>	<b>\$ 2,666,401</b>	<b>\$ 242,517</b>	<b>\$ 2,908,918</b>

2017	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	\$ 2,279,408	\$ 232,541	\$ 2,511,949
Investment return, net	1,985	-	1,985
Change in split-interest agreements	-	(1,227)	(1,227)
Contributions and designations	109,906	4,474	114,380
Reclassification	(1,227)	1,227	-
<b>Net assets, end of year</b>	<b>\$ 2,390,072</b>	<b>\$ 237,015</b>	<b>\$ 2,627,087</b>

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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

Professional Liability and Self-Insurance: The Hospital participates in the Louisiana Patients' Compensation Fund (the Fund) for medical malpractice claims. As a participant, the Hospital 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 Hospital was self-insured for costs up to \$100,000 per claim. Effective for any claims over matters occurring beginning April 1, 2013, the Hospital has purchased an insurance policy to cover the first \$100,000 of any claim, subject to certain deductibles.

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital 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, 2018 and 2017, respectively. Losses from asserted claims and from unasserted claims identified under the Hospital's incident reporting system are accrued based on estimates that incorporate the Hospital'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 Hospital arising from service provided to patients through December 31, 2018, that have not been identified under the incident reporting system. The Hospital is unable to determine the ultimate cost of the resolution of such potential claims; however, management believes it has adequately provided for them.

The Hospital 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, 2018 and 2017 (in thousands):

	Beginning Balance	Expense and Changes in Estimates	Payments	Ending Balance
<b>2018</b>	<b>\$ 2,910</b>	<b>\$ 15,839</b>	<b>\$ 15,620</b>	<b>\$ 3,129</b>
2017	\$ 1,154	\$ 15,369	\$ 13,613	\$ 2,910

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

---

**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 Hospital is subject to similar regulatory reviews, management believes the Hospital 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 Hospital'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 Hospital 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 Hospital has been subject to audits and will continue to be subject to additional audits in the future. The Hospital has recorded an estimated liability of approximately \$482,000 and \$852,000 as a component of Settlements due to Medicare and Medicaid intermediaries on the statements of net position as of December 31, 2018 and 2017, 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.

**ST. TAMMANY PARISH HOSITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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**Note 12. Concentrations of Credit Risk**

The Hospital 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 31<sup>st</sup> was as follows:

	<u>2018</u>	<u>2017</u>
Medicare	18 %	21 %
Medicaid	11	11
Insurance/Managed Care	57	57
Patients	14	11
	<u>100 %</u>	<u>100 %</u>

**Note 13. St. Tammany Hospital Foundation Cooperative Endeavor Agreement**

As disclosed in Note 1, the Hospital 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 Hospital.

Contributions recognized by the Hospital in the form of monetary and non-monetary contributions and donations from the Foundation were approximately \$133,000 and \$152,000 in 2018 and 2017, respectively.

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

Under the terms of the agreement the Hospital 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 Hospital, 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 Hospital and the Foundation's board of trustees.

The total amount of expenditures recognized in the Hospital's December 31, 2018 and 2017 financial statements in connection with the agreement were approximately \$423,000 and \$324,000, respectively.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

---

**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 Hospital 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 Hospital 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 Hospital, 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 Hospital received funds under this grant program in the amount of approximately \$6,854,000 and \$6,456,000, in 2018 and 2017, respectively. The funds are included in other operating revenues in the Statements of Revenue, Expenses, and Changes in Fund 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 Hospital 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.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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

Physicians' UPL Agreement with the Louisiana Department of Health (LDH) (Continued)

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 Hospital. 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.

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 Hospital, 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).

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

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

Physician Rate Enhancement Program (Continued)

Physician Rate Enhancement Funds can be paid to a hospital political subdivision, such as the Hospital, 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 hospital and a physician group that has contracted with the hospital to provide inpatient and outpatient physician services and is eligible to receive Physician Rate Enhancement Funds as a result of such services. The Hospital obtained assignments from several physician groups that have contracted with the Hospital to provide inpatient and outpatient services to the Hospital's patients. As a result of these assignments, the Hospital received Physician Rate Enhancement Funds from the five managed care organizations participating in the Healthy Louisiana Program totaling \$1,812,000 and \$377,000 in 2018 and 2017, 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 Hospital 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.

Under this CEA, MBPCC agrees to use program funds obtained from unrestricted grants and contracts to fund activities where the Hospital 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, 2020. The primary term may be extended for two successive five-year renewal terms provided the parties mutually agree.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

**Note 16. Blended Component Unit Condensed Financial Information**

In the financial statements for the Hospital, 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, 2018 and 2017. Material inter-entity transactions are eliminated in the presentation below (in thousands):

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

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1  
(D/B/A ST. TAMMANY PARISH HOSPITAL)**

**Notes to Financial Statements**

**Note 16. Blended Component Unit Condensed Financial Information (Continued)**

	<b>2017</b>					
	<b>STPH</b>	<b>STMS</b>	<b>PMC</b>	<b>STQN</b>	<b>STPN</b>	<b>Total</b>
<b>Current assets</b>	\$ 246,049	\$ -	\$ -	\$ 134	\$ 485	\$ 246,668
<b>Capital assets, net</b>	127,930	399	-	-	-	128,329
<b>Other assets</b>	34,083	1,130	-	-	-	35,213
<b>Deferred outflows</b>	354	-	-	-	-	354
<b>Total assets and deferred outflows</b>	<u>\$ 408,416</u>	<u>\$ 1,529</u>	<u>\$ -</u>	<u>\$ 134</u>	<u>\$ 485</u>	<u>\$ 410,564</u>
<b>Current liabilities</b>	\$ 20,842	\$ 731	\$ 9	\$ 2,134	\$ 16,143	\$ 39,859
<b>Long-term liabilities</b>	85,594	-	-	-	-	85,594
<b>Net position</b>	301,980	798	(9)	(2,000)	(15,658)	285,111
<b>Total liabilities and net position</b>	<u>\$ 408,416</u>	<u>\$ 1,529</u>	<u>\$ -</u>	<u>\$ 134</u>	<u>\$ 485</u>	<u>\$ 410,564</u>
<b>Operating revenues</b>	\$ 300,212	\$ 66	\$ 9	\$ 397	\$ 5,886	\$ 306,570
<b>Depreciation</b>	14,708	32	-	-	-	14,740
<b>Other operating expenses</b>	259,899	35	11	639	7,377	267,961
<b>Operating income (loss)</b>	25,605	(1)	(2)	(242)	(1,491)	23,869
<b>Nonoperating revenues</b>	(969)	-	-	-	-	(969)
<b>Excess of revenues over expenses</b>	24,636	(1)	(2)	(242)	(1,491)	22,900
<b>Capital contributions</b>	152	-	-	-	-	152
<b>Change in net position</b>	24,788	(1)	(2)	(242)	(1,491)	23,052
<b>Net position, beginning of year</b>	277,192	799	(7)	(1,758)	(14,167)	262,059
<b>Net position, end of year</b>	<u>\$ 301,980</u>	<u>\$ 798</u>	<u>\$ (9)</u>	<u>\$ (2,000)</u>	<u>\$ (15,658)</u>	<u>\$ 285,111</u>

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

**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 Parish Hospital), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise St. Tammany Parish Hospital's basic financial statements, and have issued our report thereon dated April 26, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered St. Tammany Parish Hospital'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 Parish Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of St. Tammany Parish Hospital'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 Parish Hospital'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.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Metairie, LA  
April 26, 2019



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Metairie, LA 70005  
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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, 2018 and 2017, and have issued our report thereon, dated April 26, 2019, 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 26, 2019.

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.

A Professional Accounting Corporation

Metairie, LA  
April 26, 2019

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**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, 2018**

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**Agency Head**

Joan Coffman, President and Chief Executive Officer

<b>Purpose</b>	<b>Amount</b>
Salary	\$247,305
Benefits - Insurance	\$4,869
Benefits - Retirement	\$0
Benefits - Other	\$0
Car Allowance	\$3,750
Vehicle Provided by Government	\$0
Per Diem	\$0
Reimbursements	\$0
Travel	\$0
Registration Fees	\$760
Conference Travel	\$0
Continuing Professional Education Fees	\$0
Housing	\$23,995
Unvouchered Expenses	\$0
Special Meals	\$0

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

Independent Accountant's Report  
On Applying Agreed-Upon Procedures

**For the Year Ended December 31, 2018**

St. Tammany Parish Hospital Service District No. 1  
d/b/a St. Tammany Parish Hospital and  
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 Parish Hospital (the Hospital) 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 Hospital and the Legislative Auditor, State of Louisiana, solely to assist the users in assessing certain controls and in evaluating management's assertions about the Hospital's compliance with certain laws and regulations during the year ended December 31, 2018, 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:

**Contracts**

1. Obtain and inspect the entity's written policies and procedures over contracting and observe that they address (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.

Results: No exceptions noted as a result of these procedures.

2. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. Alternately, the practitioner may use an equivalent selection source, such as an active vendor list. Obtain management's representation that the listing is complete. Randomly select five contracts (or all contracts if less than five) from the listing, excluding the practitioner's contract, and:
  - a. Observe that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.
  - b. Observe that the contract was approved by the governing body/board, if required by policy or law.
  - c. If the contract was amended (e.g., change order), observe that the original contract terms provided for such an amendment.
  - d. Randomly select one payment from the fiscal period for each of the five contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

Results: No exceptions noted as a result of these procedures.

### ***Payroll and Personnel***

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3. 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 Hospital does not have a process specially defined to periodically review changes to leave records by a person without access to change said leave records.

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 Parish Hospital 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.



A Professional Accounting Corporation

Metairie, LA  
June 27, 2019