

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

Financial Report
December 31, 2017 and 2016



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

Management's Discussion and Analysis

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, 2017. 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 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
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Management's Discussion and Analysis

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 \$23.1 million in 2017 and \$21.4 million in 2016. Net Position showed an increase of 8.8% in 2017 and 8.9% in 2016.

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.

The assets and deferred outflows of resources of the Hospital exceeded liabilities at the close of the 2016 fiscal year by \$262.1 million. Of that amount, \$156.5 million (unrestricted net position) was available to meet ongoing obligations to the Hospital District's patients and creditors, \$13.0 million was restricted for debt service and self insured funding arrangements, \$33.8 million was restricted for capital projects and \$58.7 million was the Hospital's net investment in capital assets.

In 2017, net patient service revenue increased by \$9.9 million, or 3.5%, from 2016. In 2016, net patient service revenue increased by \$12.0 million, or 4.5%, from 2015. Operating expenses increased by \$8.6 million, or 3.1%, in 2017, and \$11.6 million, or 4.4%, in 2016. Other operating revenue increased by \$3.0 million from 2016 to 2017 and \$4.4 million from 2015 to 2016. In total, the Hospital experienced an increase in the change in net position by approximately \$1.7 million, as compared to the fiscal year 2016 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

Net Position

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

	December 31,		
	2017	2016	2015
	(Dollars in Thousands)		
Assets:			
Current and other assets	\$ 281,881	\$ 266,187	\$ 230,936
Capital assets	128,329	127,901	127,937
Total assets	410,210	394,088	358,873
Deferred outflows of resources	354	494	576
Total assets and deferred outflows	<u>\$ 410,564</u>	<u>\$ 394,582</u>	<u>\$ 359,449</u>
Liabilities:			
Long-term debt outstanding	\$ 94,656	\$ 103,495	\$ 78,133
Other liabilities	30,797	29,028	40,644
Total liabilities	125,453	132,523	118,777
Net position:			
Net investment in capital assets	61,195	58,738	54,759
Restricted	40,517	46,844	12,838
Unrestricted	183,399	156,477	173,075
Total net position	285,111	262,059	240,672
Total liabilities and net position	<u>\$ 410,564</u>	<u>\$ 394,582</u>	<u>\$ 359,449</u>

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, 2017, 2016, and 2015:

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in Thousands)		
Revenue			
Net patient service revenue net of provision for bad debts of \$15,655 in 2017, \$16,995 in 2016, and \$31,811 in 2015	\$ 289,829	\$ 279,923	\$ 267,935
Other operating revenue	16,741	13,707	9,262
Total operating revenue	306,570	293,630	277,197
Expenses			
Maintenance and operation expenses	267,961	259,783	249,318
Depreciation	14,740	14,333	13,187
Total operating expenses	282,701	274,116	262,505
Operating net income	23,869	19,514	14,692
Investment income and gains and losses	1,728	1,095	1,340
Interest expense	(2,649)	(2,319)	(2,089)
(Loss) gain on disposal of capital assets	(48)	27	(70)
Excess of revenues over expenses before capital contributions	22,900	18,317	13,873
Capital contributions	152	3,070	47
Increase in net position	23,052	21,387	13,920
Total net position - beginning of year	262,059	240,672	226,752
Total net position - end of year	\$ 285,111	\$ 262,059	\$ 240,672

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1
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Management's Discussion and Analysis

The information below summarizes the Hospital's basic Statements of Revenues, Expenses, and Changes in Net Position for 2017 and 2016:

Operating Revenue

During fiscal year 2017 and 2016, 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, 2017 and 2016:

	December 31,	
	2017	2016
Medicare	27%	29%
Medicaid	14%	10%
Managed Care and Commercial Insurance	58%	59%
Self-Pay	1%	2%
Total gross charges	100%	100%

Operating and Financial Performance

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%.

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Management's Discussion and Analysis

The highlights of the Hospital's Statements of Revenues, Expenses, and Changes in Net Position from 2015 to 2016 include:

- During 2016, the Hospital had patient days and admissions of 48,814 and 11,087, respectively. During 2015, the Hospital had patient days and admissions of 46,022 and 10,415, respectively. This is an increase in patient days of 6.1% and 6.5% in admissions from fiscal year 2015.
- Observation patient volume decreased 1,276 patients or 21.8% in 2016. Net "Bedded Patients" (inpatient plus observation) went from 16,260 in 2015 to 15,656 in 2016 or a "Bedded Patient" decrease of 604 admissions.
- Outpatient visits (including Home Health, Hospice, and Physicians) were 345,006. This is an increase of 7.5% from prior year.
- Emergency room visits were 42,143, an increase of 4.8% from fiscal year 2015.
- Net patient service revenue increased \$12.0 million, or 4.5%, in 2016.
- Employee compensation increased \$5.7 million, an increase of 4.2%.
- Supplies and other professional services increased approximately 5.1%.

2017 Budget to Actual Comparison (in Thousands)

In comparing actual results of operations versus budgeted 2017 results, the following is noted:

	For the Year Ended		Variance
	December 31,		
	Budget	Actual	Positive
	2017	2017	(Negative)
Revenues:			
Net patient service revenue net of provision for bad debts of \$12,365 budget and \$15,655 actual	\$ 264,157	\$ 289,829	\$ 25,672
Other operating revenue	10,252	16,741	6,489
Total revenues	274,409	306,570	32,161
Operating expenses:			
Salaries, wages, and benefits	145,383	154,344	(8,961)
Supplies and other	87,817	94,126	(6,309)
Professional and contractual services	16,561	19,491	(2,930)
Depreciation	14,166	14,740	(574)
Total operating expenses	263,927	282,701	(18,774)
Non-operating income (expenses), net	51	(969)	(1,020)
Excess of revenues over expenses	\$ 10,533	\$ 22,900	\$ 12,367

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1
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Management's Discussion and Analysis

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 decreased in 2017.

Capital Assets

The table below details the changes in the Hospital's capital assets during the year ended December 31, 2017:

Capital Assets (in Thousands)

	<u>December 31,</u>		Dollar	Percent
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Change</u>
Land and improvements	\$ 9,420	\$ 9,244	\$ 176	2%
Buildings	135,044	133,293	1,751	1%
Equipment	124,472	121,677	2,795	2%
Construction in progress	3,505	483	3,022	626%
Subtotal	272,441	264,697	7,744	3%
Less: accumulated depreciation and amortization	(144,112)	(136,796)	(7,316)	5%
Capital Assets, net	<u>\$128,329</u>	<u>\$ 127,901</u>	<u>\$ 428</u>	<u>0%</u>

- 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.
- Net Capital Assets decreased by approximately \$36,000 during 2016. Expenditures of \$7.1 million are related to expansion and enhancement projects of the physical buildings. Expenditures of \$2.0 million are related to replacement of routine equipment and enhancement of information systems.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1
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Management's Discussion and Analysis

Projected Capital Expenditures for FY 2018

The Hospital projects spending \$17.1 million on capital projects during FY 2017. Of this amount, \$11.1 million will be funded from the bonds issued during 2016. The remaining \$6.0 million will be financed from operations.

Debt Administration

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.

2016 Long-Term Debt

At year end, the Hospital had \$103.5 million in long-term debt. Total long-term debt represents 78.0% 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 2018 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, 2017 and 2016, 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.

Opinion

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, 2017 and 2016, 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 14, 2018, 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 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 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 14, 2018

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

Statements of Net Position
December 31, 2017 and 2016 (In Thousands)

Assets and deferred outflows of resources	2017	2016
Current assets:		
Cash and cash equivalents	\$ 52,625	\$ 74,432
Investments	140,345	96,755
Noncurrent cash and investments required for current liabilities	10,156	9,860
Patient accounts receivable, net of allowance for doubtful accounts of \$20,659 in 2017 and \$23,890 in 2016	28,988	34,115
Inventories	6,215	6,005
Prepaid expenses and other receivables	8,339	3,111
Total current assets	246,668	224,278
Noncurrent cash and investments:		
Held by trustee under Construction Fund	27,167	33,839
Held by trustee under bond indenture	4,521	4,305
Held by trustee under bond ordinances	8,019	7,999
Designated by board for capital improvements and facility enhancements	3,000	3,080
Designated by board for Community ER Services	1,061	1,055
Held by others for self-insured funding arrangements	810	700
	44,578	50,978
Less: noncurrent cash and investments required for current liabilities	(10,156)	(9,860)
Total noncurrent cash and investments	34,422	41,118
Capital assets:		
Land and improvements	9,420	9,244
Buildings	135,044	133,293
Equipment	124,472	121,677
Construction in progress	3,505	483
Less: accumulated depreciation	(144,112)	(136,796)
Total capital assets, net	128,329	127,901
Other assets	791	791
Total assets	410,210	394,088
Deferred outflows of resources:		
Loss on advance refunding, net of accumulated amortization of \$1,837 and \$1,698, respectively	354	494
Total assets and deferred outflows of resources	\$ 410,564	\$ 394,582

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, 2017 and 2016 (In Thousands)

Liabilities and net position	2017	2016
Current liabilities:		
Accounts payable and accrued expenses	\$ 12,294	\$ 12,092
Accrued employee compensation	6,518	5,321
Accrued vacation	5,742	5,210
Settlements due to Medicare and Medicaid intermediaries	6,243	6,405
Amounts due within one year on long-term debt	9,062	8,839
Total current liabilities	39,859	37,867
 Long-term debt, net of current maturities	 85,594	 94,656
 Total liabilities	 125,453	 132,523
 Net position:		
Net investment in capital assets	61,195	58,738
Restricted for debt service	12,540	12,304
Restricted for capital projects	27,167	33,840
Restricted for self-insured funding arrangements	810	700
Unrestricted	183,399	156,477
Total net position	285,111	262,059
 Total liabilities and net position	 \$ 410,564	 \$ 394,582

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, 2017 and 2016 (In Thousands)

	2017	2016
Operating revenues:		
Net patient service revenue, net of provision for bad debts of \$15,655 in 2017 and \$16,995 in 2016	\$ 289,829	\$ 279,923
Other revenue	16,741	13,707
Total operating revenues	306,570	293,630
Operating expenses:		
Salaries, wages, and benefits	154,344	142,927
Supplies and other	94,126	98,371
Professional and contractual services	19,491	18,485
Depreciation	14,740	14,333
Total operating expenses	282,701	274,116
Income from operations	23,869	19,514
Non-operating revenues (expenses):		
Investment income and gains and losses, net	1,728	1,095
Interest expense	(2,649)	(2,319)
(Loss) gain on disposal of capital assets	(48)	27
Total non-operating revenues (expenses)	(969)	(1,197)
Excess of revenues over expenses before capital contributions	22,900	18,317
Capital contributions	152	3,070
Change in net position	23,052	21,387
Net position, beginning of year	262,059	240,672
Net position, end of year	\$ 285,111	\$ 262,059

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, 2017 and 2016 (In Thousands)

	2017	2016
Cash flows from operating activities:		
Cash received from patient services	\$ 311,535	\$ 298,856
Cash paid to or on behalf of employees	(150,610)	(141,485)
Cash paid for supplies and services	(120,718)	(127,474)
Net cash provided by operating activities	<u>40,207</u>	<u>29,897</u>
Cash flows from capital and related financing activities:		
Capital contributions	152	3,070
Purchase of capital assets	(15,215)	(14,270)
Proceeds from issuance of debt	-	34,000
Principal payments on long-term debt	(8,839)	(8,638)
Interest payments	(2,649)	(2,319)
Net cash (used in) provided by capital and related financing activities	<u>(26,551)</u>	<u>11,843</u>
Cash flows from investing activities:		
Proceeds from sale and maturities of investments and noncurrent cash equivalents	18,236	23,779
Purchases of investments and noncurrent cash equivalents	(55,426)	(47,687)
Investment interest received	1,727	1,095
Net cash used in investing activities	<u>(35,463)</u>	<u>(22,813)</u>
(Decrease) increase in cash and cash equivalents	(21,807)	18,927
Cash and cash equivalents, beginning of year	<u>74,432</u>	<u>55,505</u>
Cash and cash equivalents, end of year	<u><u>\$ 52,625</u></u>	<u><u>\$ 74,432</u></u>

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, 2017 and 2016 (In Thousands)

	2017	2016
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	\$ 23,869	\$ 19,514
Adjustments to reconcile income from operations to net cash provided by operating activities		
Provision for bad debts	15,655	16,995
Depreciation	14,740	14,333
Amortization of deferred loss on advance refunding	140	82
Changes in operating assets and liabilities:		
Patient accounts receivable	(10,528)	(10,309)
Inventories, prepaid expenses, and other receivables	(5,438)	898
Accounts payable and accrued expenses	202	(9,657)
Accrued employee compensation and vacation	1,729	1,443
Net settlements due to Medicare and Medicaid intermediaries	(162)	(1,461)
Accrued professional liability claims	-	(1,941)
Net cash provided by operating activities	\$ 40,207	\$ 29,897

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, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 4,922,358	\$ 4,067,550
Certificates of deposit	476,601	856,191
Interest receivable	594	1,312
Pledges receivable, net of allowance of \$7,102 and \$8,644, as of December 31, 2017 and 2016, respectively	410,540	474,750
Other receivable	523	555
Marketable securities	115,753	98,064
Interest in charitable remainder trust	187,871	187,239
Other assets	88,440	195,050
Restricted cash - donor endowment funds	237,078	232,569
	<hr/>	<hr/>
Total assets	\$ 6,439,758	\$ 6,113,280
	<hr/>	<hr/>
Liabilities and net assets		
Liabilities		
Annuities payable	\$ 83,206	\$ 82,354
	<hr/>	<hr/>
Total liabilities	83,206	82,354
	<hr/>	<hr/>
Net assets		
Unrestricted		
Undesignated	36,872	103,067
Board designated-endowment	2,398,924	2,287,033
Temporarily restricted	3,683,741	3,408,285
Permanently restricted	237,015	232,541
	<hr/>	<hr/>
Total net assets	6,356,552	6,030,926
	<hr/>	<hr/>
Total liabilities and net assets	\$ 6,439,758	\$ 6,113,280
	<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

Statement of Activities
For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
Contributions	\$ 140,092	\$ 894,252	\$ 4,474	\$ 1,038,818
Interest and dividends	9,664	-	-	9,664
Investment gains and losses, net	17,690	-	-	17,690
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/>			
Total revenues, gains, and other support	776,250	275,456	4,474	1,056,180
	<hr/>			
Expenses				
Program services	730,554	-	-	730,554
	<hr/>			
Total expenses	730,554	-	-	730,554
	<hr/>			
Change in net assets	45,696	275,456	4,474	325,626
	<hr/>			
Net assets, beginning of year	2,390,100	3,408,285	232,541	6,030,926
	<hr/>			
Net assets, end of year	\$ 2,435,796	\$ 3,683,741	\$ 237,015	\$ 6,356,552

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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
Contributions	\$ 257,267	\$ 787,337	\$ 2,559	\$ 1,047,163
Change in provision for uncollectible pledges	(258)	-	-	(258)
Interest and dividends	9,741	-	-	9,741
Investment gains and losses, net	10,619	-	-	10,619
Change in value of				
split-interest agreements	2,971	2,299	-	5,270
Net asset reclassification	(571)	571	-	-
Net assets released from restrictions	3,588,061	(3,588,061)	-	-
Total revenues, gains, and other support	3,867,830	(2,797,854)	2,559	1,072,535
Expenses				
Program services				
Contributions awarded/distributed	3,674,709	-	-	3,674,709
Total expenses	3,674,709	-	-	3,674,709
Change in net assets	193,121	(2,797,854)	2,559	(2,602,174)
Net assets, beginning of year	2,196,979	6,206,139	229,982	8,633,100
Net assets, end of year	\$ 2,390,100	\$ 3,408,285	\$ 232,541	\$ 6,030,926

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, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 325,626	\$ (2,602,174)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Provision for uncollectible pledges	-	258
Unrealized and realized gains, net	(17,690)	(10,619)
Donation of land	106,610	-
(Increase) decrease in:		
Pledge receivables	64,210	138,788
Interest receivable	718	1,374
Other receivable	32	828
Assets held in charitable remainder trusts	(632)	(1,704)
Increase (decrease) in:		
Change in present value of gift annuities	10,625	(3,565)
Net cash provided by (used in) operating activities	489,499	(2,476,814)
Cash flows from investing activities		
Net decrease in certificates of deposit	379,590	163,253
Net cash provided by investing activities	379,590	163,253
Cash flows from financing activities		
Beneficiary distributions for gift annuities	(9,772)	(9,772)
Increase in cash restricted for donor endowment funds	(4,509)	(2,575)
Net cash used in financing activities	(14,281)	(12,347)
Net increase (decrease) in cash and cash equivalents	854,808	(2,325,908)
Cash and cash equivalents, beginning of year	4,067,550	6,393,458
Cash and cash equivalents, end of year	\$ 4,922,358	\$ 4,067,550

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

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

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 year ended December 31, 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.

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 according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Foundation's contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

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*.

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

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

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.

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.

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

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

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 \$1,837,000 and \$1,698,000 at December 31, 2017 and 2016, 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.

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.

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

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

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 and \$1,059,000 of payments in fiscal years ended December 31, 2017 and 2016, respectively. 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 \$15,655,000 and \$16,995,000, for the years ended December 31, 2017 and 2016, 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.

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.

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

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

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 \$2,100,000 and \$3,301,000, in 2017 and 2016, respectively.

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.

The Foundation reports contributed support as unrestricted or restricted depending on the existence of donor stipulations that limit the use of the support.

Foundation contributions that are restricted by the donors are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets 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.

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

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

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 \$5,574,000 and \$6,146,000, for the years ended December 31, 2017 and 2016, 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.

Recently Issued Accounting Principles: As of December 31, 2017, 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. 85 (GASB 85)

The objective of GASB Statement No. 85, *Omnibus 2017*, is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Management is still evaluating the potential impact of adoption on the Hospital's financial statements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017.

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.

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

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, 2017 and 2016, 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.

At December 31, 2017 and 2016, 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.

December 31, 2017	Investment Type	Carrying Amount	Investment Maturities (in Years)		
			Less Than 1	1 - 5	>5
			(amounts in thousands)		
	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	-	-
	Total	\$ 144,155	\$ 21,934	\$ 113,293	\$ 8,928

December 31, 2016	Investment Type	Carrying Amount	Investment Maturities (in Years)		
			Less Than 1	1 - 5	>5
			(amounts in thousands)		
	U.S. government security	\$ 271	\$ -	\$ 271	\$ -
	U.S. agency obligation	92,372	6,052	70,568	15,752
	Municipal obligation	3,913	518	2,528	867
	Certificates of deposit	3,704	3,704	-	-
	Total	\$ 100,260	\$ 10,274	\$ 73,367	\$ 16,619

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.

**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)

Disclosures Relating to Credit Risk: As of December 31, 2017, 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.

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, 2017 and 2016 were as follows:

Issuer	2017	2016
Federal Home Loan Bank	27%	30%
Federal Farm Credit Bureau	25%	24%
Federal Home Loan Mortgage Corporation	23%	13%
Federal National Mortgage Association	16%	22%

The fair values of deposits and investments included in the Hospital's Statements of Net Position as of December 31, 2017 and 2016 are as follows (in thousands):

	2017	2016
Carrying amount		
Deposits	\$ 93,393	\$ 121,905
Investments	144,155	100,260
Total deposits and investments	<u>\$ 237,548</u>	<u>\$ 222,165</u>
Included in the following captions:		
Current assets:		
Cash and cash equivalents	\$ 52,625	\$ 74,432
Investments	140,345	96,755
Noncurrent cash and investments required for current liabilities	10,156	9,860
Noncurrent cash and investments:		
Under Construction Fund held by trustee	27,167	33,839
Under bond indenture held by trustee	4,521	4,305
Under bond ordinances held by trustee	8,019	7,999
By board for capital improvements and facility enhancements	3,000	3,080
By board for Community ER Services	1,061	1,055
By others for professional and other liability claims	810	700
Less: amount required for current liabilities	(10,156)	(9,860)
Total deposits and investments	<u>\$ 237,548</u>	<u>\$ 222,165</u>

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

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 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, 2017 and 2016, the Hospital has a \$575,000 certificate of deposit held as collateral against its self-insured portion of workers' compensation claims. At December 31, 2017 and 2016, 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, 2017, the Hospital has a \$110,000 certificate of deposit held as collateral for the purchase of the land for the new employee parking lot.

Approximately \$3,000,000 and \$3,080,000 of the unrestricted net position at December 31, 2017 and 2016, respectively, 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 \$1,728,000 and \$1,095,000, for the years ended December 31, 2017 and 2016, respectively. Fluctuations in investment income are related to changes in investment levels and changes in market valuations.

B. Foundation

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

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

B. Foundation (Continued)

The Foundation's split-interest agreements at December 31, 2017 and 2016, include a charitable remainder trust, and nine charitable gift annuities. The charitable remainder trust is held by a third party trustee. The donors of the charitable gift annuities contributed those assets directly to the Foundation.

The charitable remainder trust provides for the payment of 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 will be 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 temporarily restricted contribution in the Statement of Activities in the period the trust was established. An asset representing the Foundation's interest in the charitable remainder trust has been recognized at the present value of the expected future cash flow payments.

Changes in fair market value of the charitable remainder trust are reflected as changes in net assets in the Foundation's Statements of Activities. The present value of the Foundation's 50% interest in the trust totals approximately \$188,000 and \$187,000, as of December 31, 2017 and 2016, respectively, and is calculated using applicable mortality tables and an estimated discount rate of 2.6% and 1.8%, respectively. All amounts are considered to be long-term since the dates of the distribution of the trusts are uncertain. No allowance for uncollectible receivables has been recorded. Management deems all contributions of the trust to be fully collectible.

The Foundation has nine gift annuity agreements. Under each of these 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 \$10,000 during the coming year. The original donations totaling approximately \$156,000 as of December 31, 2017 and 2016 and are included in cash and cash equivalents. The present value of estimated future payments, based on life expectancies, of approximately \$83,000 and \$82,000, as of December 31, 2017 and 2016, 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 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)

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 and 2016, 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.

The following table sets forth by level, within the fair value hierarchy, the Hospital's assets at fair value as of December 31, 2017 and 2016.

	Fair Value Measurements Using:			
	12/31/2017	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	\$ 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	-	-
Total investments by fair value level	<u>\$ 144,155</u>	<u>\$ 30,931</u>	<u>\$ 113,224</u>	<u>\$ -</u>
	12/31/2016	(Level 1)	(Level 2)	(Level 3)
Investments by fair value level		<i>(amounts in thousands)</i>		
Debt securities				
Certificates of deposit	\$ 3,704	\$ 3,704	\$ -	\$ -
U.S. Government Security	271	271	-	-
U.S. Agency Obligation	92,372	16,115	76,257	-
Municipal obligations	3,913	-	3,913	-
Total investments by fair value level	<u>\$ 100,260</u>	<u>\$ 20,090</u>	<u>\$ 80,170</u>	<u>\$ -</u>

**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, 2017 and 2016:

	Fair Value Measurements Using:			
	12/31/2017	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>			
Equity securities				
Certificates of deposit	\$ 477	\$ 477	\$ -	\$ -
Mutual funds	116	116	-	-
Beneficial interest in charitable remainder trust	188	-	-	188
Total investments by fair value level	\$ 781	\$ 593	\$ -	\$ 188
	12/31/2016	(Level 1)	(Level 2)	(Level 3)
Investments by fair value level	<i>(amounts in thousands)</i>			
Equity securities				
Certificates of deposit	\$ 856	\$ 856	\$ -	\$ -
Mutual funds	98	98	-	-
Beneficial interest in charitable remainder trust	187	-	-	187
Total investments by fair value level	\$ 1,141	\$ 954	\$ -	\$ 187

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, 2017 and 2016, 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, 2014. 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 HOSPITAL SERVICE DISTRICT NO. 1
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Notes to Financial Statements

Note 4. Capital Assets

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
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets not being depreciated	5,633	5,425	(2,227)	8,831
	<hr/>	<hr/>	<hr/>	<hr/>
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
	<hr/>	<hr/>	<hr/>	<hr/>
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)
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets, being depreciated, net	122,268	(2,607)	(163)	119,498
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>\$ 127,901</u>	<u>\$ 2,818</u>	<u>\$ (2,390)</u>	<u>\$ 128,329</u>

Depreciation expense reported during the fiscal year ended December 31, 2017 and 2016, was approximately \$14,740,000 and \$14,333,000 (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 2016 is as follows (in thousands):

	December 31, 2015	Additions	Transfers and Disposals	December 31, 2016
Capital assets, not being depreciated:				
Land	\$ 4,770	\$ 380	\$ -	\$ 5,150
Construction in progress	1,371	8,617	(9,505)	483
Total capital assets not being depreciated	6,141	8,997	(9,505)	5,633
Capital assets, being depreciated:				
Land improvements	4,092	2	-	4,094
Buildings and improvements	126,159	7,757	(623)	133,293
Equipment	119,654	7,132	(5,109)	121,677
Total capital assets being depreciated	249,905	14,891	(5,732)	259,064
Less: total accumulated depreciation	(128,109)	(14,333)	5,646	(136,796)
Total capital assets, being depreciated, net	121,796	558	(86)	122,268
Total	\$ 127,937	\$ 9,555	\$ (9,591)	\$ 127,901

Note 5. Long-Term Debt

The details and balances of long-term debt at December 31, 2017 and 2016, are presented below (in thousands):

	2017	2016
Hospital Revenue and Refunding Bonds, Series 2011	\$ 24,700	\$ 30,405
Hospital Revenue Bonds, Series 2012	23,545	23,885
Hospital Revenue Bonds, Series 2015	12,411	15,205
Hospital Revenue Bonds, Series 2016	34,000	34,000
Less: amounts due within one year	(9,062)	(8,839)
Total long-term debt	\$ 85,594	\$ 94,656

**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 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 rate 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.

The Series 2011 Bonds are subject to extraordinary optional and special redemption on any date prior to maturity; however, they are not subject to optional redemption prior to maturity. The Series 2011 Bonds mature July 1, 2021. At December 31, 2017, and 2016, the principal outstanding on the Series 2011 bonds was \$24,700,000 and \$30,405,000, respectively.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$268,000, which is reported in the accompanying financial statements as a deferred outflow of resources, and is being amortized to operations through the year 2021.

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 2011 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, a the principal amount thereof and accrued interest to the redemption date. At December 31, 2017 and 2016, the principal outstanding on the Series 2012 bonds was \$23,545,000 and \$23,885,000, 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 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, 2017 and 2016, the principal outstanding on the Series 2015 bonds was approximately \$12,411,000 and \$15,205,000, respectively.

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, 2017 and 2016, the principal outstanding on the Series 2016 bonds was \$34,000,000.

Debt Covenants:

In connection with the Series 2011, Series 2012, Series 2015, and Series 2016 issuances of bonds, 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, 2017, the Hospital was in compliance with the provisions of the Trust Indentures.

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 and 2016, is as follows (in thousands):

	December 31, 2016		Borrowings	Payments	December 31, Due Within 2017 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	-
	\$ 103,495	\$ -	\$ -	\$ (8,839)	\$ 94,656	\$ 9,062

	December 31, 2015		Borrowings	Payments	December 31, Due Within 2016 One Year	
Hospital Revenue Refunding Bonds, Series 2011	\$ 35,965	\$ -	\$ -	\$ (5,560)	\$ 30,405	\$ 5,705
Hospital Revenue Bonds, Series 2012	24,215	-	-	(330)	23,885	340
Hospital Revenue Bonds, Series 2015	17,953	-	-	(2,748)	15,205	2,794
Hospital Revenue Bonds, Series 2016	-	34,000	-	-	34,000	-
	\$ 78,133	\$ 34,000	\$ -	\$ (8,638)	\$ 103,495	\$ 8,839

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

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 9,062	\$ 2,384
2019	9,304	2,142
2020	9,568	1,879
2021	9,877	1,566
2022	7,925	1,253
2023-2027	29,491	3,603
2028-2031	19,429	937
	\$ 94,656	\$ 13,764

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 interest cost and investment income on borrowed funds held by the Trustee under the Hospital Revenue and Refunding Bonds during the years ended 2017 and 2016, follows (in thousands):

	<u>2017</u>	<u>2016</u>
Interest cost:	\$ 2,649	\$ 2,319
Charged to non-operating expenses	<u>\$ 2,649</u>	<u>\$ 2,319</u>
Investment income:	\$ 1,728	\$ 1,095
Credited to non-operating income	<u>\$ 1,728</u>	<u>\$ 1,095</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 years ended December 31, 2017 and 2016, OHS owed the Hospital for the sharing of amounts earned for the period of operations and are 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

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 \$8,832,000 and \$9,882,000, for the years ended December 31, 2017 and 2016, respectively. The future minimum lease payments at December 31, 2017, for non-cancelable operating leases are as follows (in thousands):

2018	\$ 7,881
2019	6,825
2020	6,329
2021	6,086
2022	5,985
Thereafter	<u>18,099</u>
Total	<u>\$ 51,205</u>

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 \$5,742,000 and \$5,210,000, as of December 31, 2017 and 2016, 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, 2017 and 2016, contributions required under the Plan were approximately \$4,814,000 and \$5,067,000, respectively, which represents approximately 5.3% and 5.5% of covered payroll for each year, respectively. The total covered payroll for the years ended December 31, 2017 and 2016 was \$87,853,000 and \$90,266,000, respectively. After applying the effects forfeitures of non-vested accounts, contributions paid by the Hospital were approximately \$4,684,000 and \$4,932,000, respectively, for the years ended December 31, 2017 and 2016.

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

Notes to Financial Statements

Note 8. Employee Benefit Plans (Continued)

Noncontributory Defined Contribution Plan (Continued):

Retirement expense included in salaries, wages, and benefits related to the Plan described above approximated \$4,587,000 and \$4,714,000, for the years ended December 31, 2017 and 2016, 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

Unrestricted - Board designated net assets are attributable to board established (designated) funds that are detailed in Note 10. Temporarily Restricted - Temporarily restricted net assets consist of the following as of December 31, 2017 and 2016:

	2017	2016
Restricted for Life of Income Beneficiaries:		
Charitable Remainder Trust Interest	\$ 187,871	\$ 187,239
Total Time Restrictions	187,871	187,239
Purpose Restrictions:		
Pediatrics	1,178,052	1,179,636
Hospice	479,017	377,050
Miscellaneous Directed Gifts	424,313	281,282
Cancer Center	393,321	456,239
Parenting Center	305,144	264,592
Healing Arts	210,454	216,700
Facility and Technology Expansion	137,502	124,462
Community Wellness	85,393	79,515
STPH Employee Benevolent Fund	83,599	70,699
Oncology	71,017	62,918
Education	58,861	57,540
Women's Pavillion	44,966	29,125
Employee Education	15,917	12,974
Building Expansion Initiative	8,314	8,314
Total Purpose Restrictions	3,495,870	3,221,046
Total Temporarily Restricted Net Assets	\$ 3,683,741	\$ 3,408,285

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

Notes to Financial Statements

Note 9. Foundation Net Assets (Continued)

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, 2017 and 2016, as follows:

	2017	2016
Net Assets Released from Restrictions:		
Cancer Center	\$ 390,334	\$ 286,210
Parenting Center	83,570	91,761
Pediatrics	42,171	3,000,239
STPH Employee Benevolent Fund	30,597	147,702
Healing Arts	28,045	3,388
Miscellaneous Directed Gifts	15,541	11,503
Hospice	14,617	15,780
Healing Arts	4,800	124
Oncology	4,002	2,440
Community Wellness	2,500	28,914
Total Net Assets Released from Restrictions	\$ 616,177	\$ 3,588,061

Permanently restricted net assets consisted of donor restricted endowment funds totaling approximately \$237,000 and \$233,000, as of December 31, 2017 and 2016, respectively.

Note 10. Foundation Endowment Composition

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

The Foundation has interpreted the State of Louisiana's UPMIFA as requiring the preservation of the fair value of the original gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed in UPMIFA.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 1
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Notes to Financial Statements

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 unrestricted net assets to function as a board designated endowment. The Board's current policy is to designate 75% of unrestricted 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 unrestricted net assets. In accordance with U.S. generally accepted accounting principals, contributions restricted by donors for endowment purposes are classified and reported as permanently restricted net assets.

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 \$9,000 and \$8,000 as of December 31, 2017 and 2016, respectively. The deficiencies resulted from change in estimated life expectancies for the beneficiaries of the gift annuities included in the endowment.

ST. TAMMANY PARISH HOSPITAL 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, 2017 and 2016, is as follows:

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment	\$ 2,398,924	\$ -	\$ -	\$ 2,398,924
Donor restricted endowments	(8,852)	-	237,015	228,163
Total	\$ 2,390,072	\$ -	\$ 237,015	\$ 2,627,087

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment	\$ 2,287,033	\$ -	\$ -	\$ 2,287,033
Donor restricted endowments	(7,625)	-	232,541	224,916
Total	\$ 2,279,408	\$ -	\$ 232,541	\$ 2,511,949

A summary of the changes in the Foundation's endowment net assets for the year ended December 31, 2017 and 2016 is as follows:

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	\$ 2,279,408	\$ -	\$ 232,541	\$ 2,511,949
Investment return				
Interest income	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	-	-
Net assets, end of year	\$ 2,390,072	\$ -	\$ 237,015	\$ 2,627,087

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	\$ 2,084,654	\$ -	\$ 229,982	\$ 2,314,636
Investment return				
Interest income	2,230	-	-	2,230
Change in split interest agreements	-	(571)	-	(1,038)
Contributions and designations	193,095	-	2,559	195,654
Reclassification	(571)	571	-	-
Net assets, end of year	\$ 2,279,408	\$ -	\$ 232,541	\$ 2,511,949

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

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.

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, 2017. 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, 2017, 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, 2017 and 2016 (in thousands):

	Beginning Balance	Expense and Changes in Estimates	Payments	Ending Balance
2017	\$ 1,154	\$ 15,369	\$ 13,613	\$ 2,910
2016	\$ 6,931	\$ 13,129	\$ 18,906	\$ 1,154

**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 \$852,000 and \$1,063,000 as a component of Settlements due to Medicare and Medicaid intermediaries on the statements of net position as of December 31, 2017 and 2016, 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 HOSPITAL SERVICE DISTRICT NO. 1
(d/b/a ST. TAMMANY PARISH HOSPITAL)

Notes to Financial Statements

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 31st was as follows:

	<u>2016</u>	<u>2015</u>
Medicare	21 %	22 %
Medicaid	11	8
Insurance/Managed Care	57	51
Patients	11	19
	<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 \$152,000 and \$3,070,000 in 2017 and 2016, 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, 2017 and 2016 financial statements in connection with the agreement were approximately \$372,000 and \$376,000, 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 \$6,456,000 and \$6,515,000, in 2017 and 2016, 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

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

The Hospital received funds under this program in the amount of approximately \$53,000 and \$171,000, in 2017 and 2016, respectively. Associated with these payments are required inter-governmental payments in the amount of approximately \$25,000 and \$75,000, in 2017 and 2016, respectively. The funds 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

Note 14. Medicaid Disproportionate Share Hospital Reimbursement Cooperative Endeavor Agreement (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 \$377,000 and \$252,000 in 2017 and 2016, 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, 2017 and 2016. Material inter-entity transactions are eliminated in the presentation below (in thousands):

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

	2016					
	STPH	STMS	PMC	STQN	STPN	Total
Current assets	\$ 223,626	\$ -	\$ -	\$ 134	\$ 518	\$ 224,278
Capital assets, net	127,470	431	-	-	-	127,901
Other assets	40,845	1,064	-	-	-	41,909
Deferred outflows	494	-	-	-	-	494
Total assets and deferred outflows	\$ 392,435	\$ 1,495	\$ -	\$ 134	\$ 518	\$ 394,582
Current liabilities	\$ 20,587	\$ 696	\$ 7	\$ 1,892	\$ 14,685	\$ 37,867
Long-term liabilities	94,656	-	-	-	-	94,656
Net position	277,192	799	(7)	(1,758)	(14,167)	262,059
Total liabilities and net position	\$ 392,435	\$ 1,495	\$ -	\$ 134	\$ 518	\$ 394,582
Operating revenues	\$ 288,688	\$ 66	\$ 9	\$ 357	\$ 4,510	\$ 293,630
Depreciation	14,301	32	-	-	-	14,333
Other operating expenses	252,276	35	12	926	6,534	259,783
Operating income (loss)	22,111	(1)	(3)	(569)	(2,024)	19,514
Nonoperating revenues	(1,197)	-	-	-	-	(1,197)
Excess of revenues over expenses	20,914	(1)	(3)	(569)	(2,024)	18,317
Capital contributions	3,070	-	-	-	-	3,070
Change in net position	23,984	(1)	(3)	(569)	(2,024)	21,387
Net position, beginning of year	253,208	800	(4)	(1,189)	(12,143)	240,672
Net position, end of year	\$ 277,192	\$ 799	\$ (7)	\$ (1,758)	\$ (14,167)	\$ 262,059

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, 2017, 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 14, 2018.

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.

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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 14, 2018



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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, 2017 and 2016, and have issued our report thereon, dated April 14, 2018, 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 14, 2018.

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 14, 2018

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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, 2017**

Agency Head

Patti Elish, President and Chief Executive Officer

Purpose	Amount
Salary	\$582,223
Benefits - Insurance	\$2,527
Benefits - Retirement	\$24,340
Benefits - Other	\$0
Car Allowance	\$9,000
Vehicle Provided by Government	\$0
Per Diem	\$0
Reimbursements	\$0
Travel	\$0
Registration Fees	\$1,973
Conference Travel	\$2,668
Continuing Professional Education Fees	\$0
Housing	\$0
Unvouchered Expenses	\$0
Special Meals	\$682

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, 2017

St. Tammany Parish Hospital Service District No. 1
d/b/a St. Tammany Parish Hospital and
the Legislative Auditor

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, 2017, 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:

Pharmacy Operations and Inventory

1. Obtain the entity's written policies and procedures over pharmacy operations and inventory (or report that the entity does not have any written policies and procedures over pharmacy operations and inventory) and report whether those written policies and procedures address (1) procurement, (2) receipt, (3) distribution, (4) control, (5) accountability, (6) waste, (7) disposal of outdated drugs, (8) requirement of background checks before hiring any pharmacy personnel, (9) monthly checks of all pharmacy staff and contractors to the LEIE list of exclusions, (10) theft or loss reporting protocol to DEA, and (11) random audits of pharmacy security logs.

Results: The Hospital's written policies and procedures addressed all of the elements listed above.

2. Report if Schedule II controlled dangerous substances are maintained on a perpetual inventory system.

Results: Schedule II controlled dangerous substance are maintained on a perpetual inventory system.

3. Report last date on which a complete inventory was conducted on Schedule II controlled dangerous substances.

Results: The last date on which a complete inventory was conducted on Schedule II controlled dangerous substance was December 5, 2017.

4. Obtain a listing of pharmaceutical (drug) orders during the year under review and management's representation that the listing is complete.

Results: Obtained the listing of pharmaceutical orders during the year under review and management's representation that the listing is complete.

5. Randomly select five drug orders for testing and report:

- a. If a record was maintained of the quantity received, the name, address, and wholesale distributor license number of person from whom the drugs were procured; and
- b. If the bill of lading, or equivalent, for the drug order being tested ties to the order entered into the pharmacy tracking system.

Results: There were no exceptions noted for items (a) and (b) above for the five randomly selected drug order selected.

6. Report if the hospital utilizes an automated medication system.

Results: The Hospital utilizes an automated medication system.

7. If the hospital utilizes an automated medication system:

- a. Obtain the entity's written policies and procedures over pharmacy automated medication system (or report that the entity does not have any written policies and procedures over pharmacy automated medication system) and report whether those written policies and procedures address criteria set forth in the Louisiana Administrative Code Title 46, part LIII, section 1209.

Results: The Hospital's written policies and procedures over pharmacy automated medication system addressed the criteria listed above.

8. Report if the hospital utilizes a drug cabinet (i.e., emergency/after-hours "crash" cart).

Results: The Hospital utilizes a drug cabinet.

9. If the hospital utilizes a drug cabinet:
 - a. Obtain the entity's written policy and procedures over pharmacy drug cabinet utilization (or report that the entity does not have any written policies and procedures over pharmacy drug cabinet utilization) and report whether those written policies and procedures address (1) emergency use, (2) security, (3) inventory, (4) labeling, (5) quantities, (6) accessibility (to include proof of use), and (7) requirement of inspection every thirty days.

Results: The Hospital's written policy and procedures over pharmacy drug cabinet utilization addressed the items listed above.

Payroll and Personnel

1. Obtain the entity's written policies and procedures over payroll/personnel (or report that the entity does not have any written policies and procedures over payroll/personnel) and report whether those written policies and procedures address (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

Results: The Hospital's written policies and procedures addressed all of the elements listed above.

2. Obtain a listing of employees (and elected officials, if applicable) with their related salaries, and obtain management's representation that the listing is complete. Randomly select five employees/officials, obtain their personnel files, and:
 - a. Review compensation paid to each employee during the fiscal period and report whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.
 - b. Review changes made to hourly pay rates/salaries during the fiscal period and report whether those changes were approved in writing and in accordance with written policy.

Results: Obtained the listing of employees with their related salaries and management's representation that the listing is complete. No exceptions to the requirements listed above were noted for the five randomly selected employees.

3. Obtain attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, randomly select 25 employees/officials (or randomly select one-third of employees/officials if the entity had less than 25 employees during the fiscal period), and:

Note: The sample of employees/officials selected for testing should include the Hospital Chief Executive Office.

- a. Report whether all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)
- b. Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.

- c. Report whether there is written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.

Results: Randomly selected one pay period in which leave was taken by at least one employee. There were no exceptions to items (a), (b), and (c) listed above for the 25 randomly selected employees, which included the CEO.

4. 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.

5. Obtain from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, select the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtain the personnel files for the two employees/officials. Report whether the termination payments were made in strict accordance with policy and/or contract and approved by management.

Results: Obtained a list of employees that terminated during the fiscal year and management's representation that the list is complete. The two largest termination payments were made in accordance with policy and approved by management.

6. Obtain supporting documentation (e.g., cancelled checks, EFT documentation) relating to all payroll tax payments made during the fiscal period and 10 randomly selected retirement contribution payment made during the fiscal period (assuring each retirement plan utilized by the entity is represented within the selected sample). Report whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

Results: Obtained support for all payroll tax payments made during the fiscal period and 10 randomly selected retirement contribution payments noting the employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

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 handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Metairie, LA
May 22, 2018



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John P. Romano

May 22, 2018

Eric Bosch, CPA
Director
LaPorte CPAs & Business Advisors
111 Veterans Blvd., Suite 600
Metairie, LA 70005

Dear Eric:

This is in response to the Act 774 of the 2014 Regular Legislative Session agreed upon procedures performed for fiscal year ended December 31, 2017, specifically Payroll and Personnel item number 4, regarding the periodic review of changes to leave records by a person without access to said leave records.

- St. Tammany Parish Hospital will implement a process for our Internal Auditor to periodically review leave records.

Sincerely,

Sandra DiPietro
Chief Financial Officer

Accredited by

