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

ST. TAMMANY PARISH HOSPITAL

Management's Discussion and Analysis
Consolidated Financial Statements
December 31, 2012 and 2011

LAPORTE
CPAs & BUSINESS ADVISORS

Contents

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, 2012. Please read it in conjunction with the financial statements in this report.

Financial Highlights

The Hospital's change in net position was approximately $14 million in 2012 and $17 million in 2011. Net Position showed an increase of 7.6% in 2012 and 10.5%, in 2011.

The assets of the Hospital exceeded liabilities at the close of the 2012 fiscal year by $192.3 million. Of that amount, $135.7 million (unrestricted net position) was available to meet ongoing obligations to the Hospital District's patients and creditors, and $47.9 million was invested in capital assets, net of related debt.

The assets of the Hospital exceeded liabilities at the close of the 2011 fiscal year by $178.7 million. Of that amount, $126.5 million (unrestricted net position) was available to meet ongoing obligations to the Hospital District's patients and creditors, and $45.9 million was invested in capital assets, net of related debt.

In 2012 net patient service revenue increased by $1.2 million, or 0.6%, from 2011. In 2011 net patient service revenue increased by $12.3 million, or 6.0%, from 2010. Operating expenses increased by $4.0 million, or 2.0%, in 2012, and $12 million, or 6.1%, in 2011. Other revenue (including non-operating revenue) increased by $0.6 million from 2011 to 2012 and increased by $1.7 million from 2010 to 2011. In total, the Hospital experienced a decrease in net position of $3.3 million, as compared to the fiscal year 2011 operations.

Overview of the Financial Statements

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 Consolidated Financial Statements.

The Consolidated Financial Statements of St. Tammany Parish Hospital report the consolidated financial position of the Hospital and the consolidated results of its operations and its cash flows. The consolidated 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 Consolidated Statements of Net Position include all of 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.

All of the current year's revenues and expenses are accounted for in the Consolidated Statements of Revenues, Expenses, and Changes in Fund 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.

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

Financial Analysis of the Hospital

The Consolidated Statements of Net Position and the Consolidated Statements of Revenues, Expenses, and Changes in Fund 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.

Net Assets

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

Table 1: Condensed Statements of Net Position

	December 31,		
	2012	2011	2010
	(Dollars in Thousands)		
Assets:			
Current and other assets	**$ 196,900**	$ 160,598	$ 146,819
Capital assets	**98,473**	99,125	95,518
Total assets	**$ 295,373**	$ 259,723	$ 242,337
Liabilities:			
Long-term debt outstanding	**$ 75,142**	$ 53,779	$ 55,602
Other liabilities	**27,931**	27,283	25,021
Total liabilities	**$ 103,073**	$ 81,062	$ 80,623
Net Position:			
Invested in capital assets, net of related debt	**$ 47,903**	$ 45,951	$ 42,222
Restricted	**8,694**	6,208	4,820
Unrestricted	**135,703**	126,502	114,672
Total net position	**$ 192,300**	$ 178,661	$ 161,714

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

The following table presents a summary version of the Hospital's historical revenues and expenses for the years ended December 31, 2012, 2011, and 2010:

Table 2: Condensed Consolidated Statements of Revenues, Expenses, and Changes in Fund Net Position

	Years Ended December 31,		
	2012	2011	2010
	(Dollars in Thousands)		
Revenue			
Net patient service revenue net of provision for bad debts of $19,970 in 2012, $21,593 in 2011, and $19,902 in 2010	**$ 217,331**	$ 216,087	$ 203,956
Other operating revenue	**7,935**	7,047	4,883
Total operating revenue	**225,266**	223,134	208,839
Expenses			
Maintenance and operation expenses	**199,995**	196,946	185,341
Depreciation and amortization	**11,199**	10,448	10,018
Total operating expenses	**211,194**	207,394	195,359
Operating net income	**14,072**	15,740	13,480
Investment income and gains and losses	**1,645**	3,814	4,254
Interest expense	**(1,942)**	(2,736)	(2,940)
Loss on disposal of capital assets	**(112)**	-	(438)
Other non-operating revenues (expenses)	**(165)**	-	(2,317)
Excess of revenues over expenses before capital contributions	**13,498**	16,818	12,039
Capital contributions	**141**	129	369
Increase in net assets	**13,639**	16,947	12,408
Total net position - beginning of year	**178,661**	161,714	149,306
Total net position - end of year	**$ 192,300**	$ 178,661	$ 161,714

The information below summarizes the Hospital's basic Consolidated Statements of Revenues, Expenses, and Changes in Fund Net Position for 2012 and 2011:

Operating Revenue

During fiscal year 2012 and 2011, the Hospital derived approximately 96.5% and 96.8%, 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, 2012 and 2011:

	December 31,	
	2012	2011
Medicare	**33%**	35%
Medicaid	**8%**	8%
Managed Care and commercial insurance	**55%**	53%
Self-Pay	**4%**	4%
Total gross charges	**100%**	100%

Operating and Financial Performance

The highlights of the Hospital's Statements of Revenues, Expenses, and Changes in Fund Net Position from 2011 to 2012 include:

- During 2012, the Hospital had patient days and admissions of 49,463 and 11,237, respectively. During 2011, the Hospital had patient days and admissions of 50,211 and 11,252, respectively. This is a decrease in patient days of 1.5% and 0.1% in admissions from fiscal year 2011.
- Observation patient volume decreased by 140 patients or 4.1% over 2011. Net "Bedded Patients" (inpatient plus observation) went from 14,687 in 2011 to 14,532 in 2012 or a "Bedded Patient" decrease of 155 admissions.
- Outpatient visits (including Home Health, Hospice and Physicians) were 255,405. This is an increase of 2.3% from prior year.
- Emergency room visits were 37,200, an increase of 8.4% from fiscal year 2011.
- Net patient service revenue increased $1.2 million, or 0.6%, in 2012.
- Employee compensation increased $1.5 million, an increase of 1.4%.
- Supplies and other professional services increased approximately 2.0%.

The following summarizes the Hospital's Statements of Revenues, Expenses, and Changes in Fund Net Position from 2010 to 2011:

- During 2011, the Hospital had patient days and admissions of 50,211 and 11,552, respectively. During 2010, the Hospital had patient days and admissions of 51,866 and 11,552, respectively. This is a decrease in patient days of 3.2% and 2.6% in admissions from fiscal year 2010.
- Observation patient volume increased by 497 patients or 17% over 2010. Net "Bedded Patients" (inpatient plus observation) went from 14,490 in 2010 to 14,687 in 2011 or a "Bedded Patient" growth of 197 admissions.
- Outpatient visits (including Home Health, Hospice and Physicians) were 249,652. This is an increase of 2.3% from prior year.
- Emergency room visits were 34,307, an increase of 2.5% from fiscal year 2010.
- Net patient service revenue increased $12.1 million, or 5.9%, in 2011.
- Employee compensation increased $4.2 million or 3.9% to reflect merit increases driven by market adjustments for professional staff and to address the competitive nursing market and rising health insurance costs.
- Supplies and other professional services increased approximately 9.0%, which was materially related to rising costs in drugs.

2012 Budget to Actual Comparison (in Thousands)

In comparing actual results of operations versus budgeted 2012 results, the following is noted:

	For the Years Ended December 31, Budget 2012	For the Years Ended December 31, Actual 2012	Favorable (Unfavorable) Variance
Revenues:			
Net patient service revenue net of provision for bad debts of $23,619 budget and $19,970 actual	$ 230,798	$ 217,331	$ (13,467)
Other operating revenue	4,595	7,935	3,340
Total revenues	235,393	225,266	(10,127)
Operating expenses:			
Salaries, wages, and benefits	116,247	111,750	4,497
Supplies and other	80,228	73,139	7,089
Professional and contractual services	14,855	15,106	(251)
Depreciation and amortization	10,984	11,199	(215)
Total operating expenses	222,314	211,194	11,120
Non-operating income/(expenses), net	1,059	(574)	(1,633)
Excess of revenues over expenses	$ 14,138	$ 13,498	$ (640)

The Hospital's Cash Flows

Changes in the Hospital's cash flows as illustrated in the Consolidated Statements of Cash Flows appearing on page 6 are generally consistent with changes in operating gains and non-operating revenues and expenses, as discussed earlier. Overall cash and cash equivalents increased in 2012.

Capital Assets

The table below details the changes in the Hospital's capital assets during the year ended December 31, 2012:

Capital Assets (in Thousands)

	December 31, 2012	December 31, 2011	Dollar Change	Percent Change
Land and improvements	**$ 8,684**	$ 8,921	$ (237)	-3%
Buildings	**103,887**	103,054	833	1%
Equipment	**96,376**	90,104	6,272	7%
Construction in progress	**3,892**	1,705	2,187	128%
Subtotal	**212,839**	203,784	9,055	4%
Less: accumulated depreciation and amortization	**(114,366)**	(104,659)	(9,707)	9%
Property, plant and equipment, net	**$ 98,473**	$ 99,125	$ (652)	-1%

- Net Property, Plant, and Equipment decreased by approximately $.6 million during 2012. Expenditures of $2.5 million are related to expansion and enhancement projects of the physical buildings. Expenditures of $8.9 million are related to replacement of routine equipment and enhancement of information systems.

- Net Property, Plant, and Equipment increased by approximately $3.6 million during 2011. Expenditures of $5.1 million are related to expansion and enhancement projects of the physical buildings. Expenditures of $7.4 million are related to replacement of routine equipment and enhancement of information systems.

Projected Capital Expenditures for FY 2013

The Hospital projects spending $12.5 million on capital projects during FY 2013. This amount is expected to be financed from operations, with exception to $2.0 million. These funds are related to the Hospital's Emergency room expansion and will be funded from bond issue entered into end of 2012.

Debt Administration

2012 Long-Term Debt

At year-end, the Hospital had $70.0 million in long-term debt. Total long-term debt represents 67.9% of the Hospital's total liabilities as of year-end. During 2012, the Hospital incurred $24.8 million of additional debt to fund an expansion of the Emergency Room.

2011 Long-Term Debt

At year-end, the Hospital had $50.6 million in long-term debt. Total long-term debt represents 62.4% of the Hospital's total liabilities as of year-end. During 2011, the Hospital refinanced its existing bonds to take advantage of lower interest rates along with shortening the life of existing debt.

Economic Factors and Next Year's Budget

The Hospital's Board and Management considered many factors when setting the fiscal year 2013 budget. Of primary importance in setting the 2013 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare reimbursement changes and reductions
- Medicaid reductions
- Increased number of uninsured and working poor
- Workforce shortages
- Cost of supplies
- Cost of drugs
- Increased competition in the marketplace

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.

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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 basic consolidated financial statements of St. Tammany Parish Hospital Service District No. 1 of St. Tammany Parish, Louisiana (St. Tammany Parish Hospital) which comprise the consolidated statements of net position as of December 31, 2012 and 2011, and the related consolidated statements of revenues, expenses and changes in fund net position and cash flows for the years ended 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 basic consolidated 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 consolidated financial statements that are fee from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these basic consolidated 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 basic consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic consolidated 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 basic consolidated 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 basic consolidated financial statements.

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

Opinion

In our opinion, the basic consolidated financial statements referred to above present fairly, in all material respects, the financial position of St. Tammany Parish Hospital as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i through ix be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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 March 19, 2013, 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, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

LaPorte

A Professional Accounting Corporation

Metairie, Louisiana
March 19, 2013

St. Tammany Parish Hospital Service District No. 1
(d/b/a St. Tammany Parish Hospital)

Consolidated Statements of Net Position
December 31, 2012 and 2011 (In Thousands)

Assets	2012	2011
Current assets:		
Cash and cash equivalents	$ 44,570	$ 17,657
Investments	64,754	82,402
Noncurrent cash and investments required for current liabilities	6,144	3,439
Patient accounts receivable, net of allowance for doubtful accounts of $22,951 in 2012 and $30,445 in 2011	31,408	32,914
Inventories	4,906	4,557
Prepaid expenses and other receivables	3,573	3,683
Total current assets	155,355	144,652
Noncurrent cash and investments:		
Held by trustee under Construction Fund	21,180	-
Held by trustee under bond indenture	3,392	605
Held by trustee under bond ordinances	7,994	5,508
Designated by board for capital improvements, and facility enhancements	11,297	9,648
Designated by board for Community ER Services	1,038	1,034
Held by others for professional and other liability claims	700	700
	45,601	17,495
Less: noncurrent cash and investments required for current liabilities	(6,144)	(3,439)
Total noncurrent cash and investments	39,457	14,056
Capital assets:		
Land and improvements	8,684	8,921
Buildings	103,887	103,054
Equipment	96,376	90,104
Construction in progress	3,892	1,705
Less: accumulated depreciation and amortization	(114,366)	(104,659)
Total capital assets, net	98,473	99,125
Other assets	2,088	1,890
Total assets	$ 295,373	$ 259,723

See notes to consolidated financial statements.

St. Tammany Parish Hospital Service District No. 1
(d/b/a St. Tammany Parish Hospital)

Consolidated Statements of Net Position (Continued)
December 31, 2012 and 2011 (In Thousands)

Liabilities and Net Assets	**2012**	2011
Current liabilities:		
Accounts payable and accrued expenses	**$ 7,450**	$ 7,992
Accrued employee compensation	**8,501**	8,002
Accrued vacation	**3,895**	3,768
Settlements due to Medicare and Medicaid intermediaries	**5,117**	4,943
Amounts due within one year on long-term debt	**5,190**	3,200
Total current liabilities	**30,153**	27,905
Accrued professional liability claims	**2,625**	2,369
Other long-term liabilities	**343**	209
Long-term debt, net of current maturities	**69,952**	50,579
Total liabilities	**103,073**	81,062
Net position:		
Net investment in capital assets	**47,903**	45,951
Restricted for debt service	**8,694**	6,208
Unrestricted	**135,703**	126,502
Total net position	**192,300**	178,661
Total liabilities and net position	**$ 295,373**	$ 259,723

See notes to consolidated financial statements.

St. Tammany Parish Hospital Service District No. 1
(d/b/a St. Tammany Parish Hospital)

Consolidated Statements of Revenues, Expenses and Changes in Fund Net Position
Years Ended December 31, 2012 and 2011 (In Thousands)

	2012	2011
Operating revenues:		
Net patient service revenue, net of provision for bad debts of $19,970 in 2011 and $21,593 in 2011	$ 217,331	$ 216,087
Other revenue	7,935	7,047
Total operating revenues	225,266	223,134
Operating expenses:		
Salaries, wages and benefits	111,750	110,262
Supplies and other	73,139	71,691
Professional and contractual services	15,106	14,993
Depreciation and amortization	11,199	10,448
Total operating expenses	211,194	207,394
Income from operations	14,072	15,740
Non-operating revenues (expenses):		
Investment income and gains and losses	1,645	3,814
Interest expense	(1,942)	(2,736)
Loss on disposal of capital assets	(112)	-
Other non-operating revenues (expenses)	(165)	-
Total non-operating revenues (expenses)	(574)	1,078
Excess of revenues over expenses before capital contributions	13,498	16,818
Capital contributions	141	129
Change in net position	13,639	16,947
Net Position:		
Beginning	178,661	161,714
Ending	$ 192,300	$ 178,661

See notes to consolidated financial statements.

St. Tammany Parish Hospital Service District No. 1
(d/b/a St. Tammany Parish Hospital)

Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011 (In Thousands)

	2012	2011
Cash flows from operating activities:		
Cash received from patient services	$ 226,946	$ 216,965
Cash paid to or on behalf of employees	(111,124)	(108,690)
Cash paid for supplies and services	(89,945)	(86,621)
Net cash provided by operating activities	25,877	21,654
Cash flows from capital and related financing activities:		
Capital contributions	141	129
Purchase of capital assets	(10,660)	(14,054)
Principal payments on long-term debt	(3,200)	(56,720)
Debt proceeds	24,850	55,080
Interest payments	(1,463)	(3,914)
Net cash provided by (used in) capital and related financing activities	9,668	(19,479)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments and noncurrent cash equivalents	39,008	53,751
Purchases of investments and noncurrent cash equivalents	(49,466)	(51,922)
Investment interest received	1,826	3,887
Net cash (used in) provided by investing activities	(8,632)	5,716
Increase in cash and cash equivalents	26,913	7,891
Cash and cash equivalents:		
Beginning	17,657	9,766
Ending	$ 44,570	$ 17,657

See notes to consolidated financial statements.

St. Tammany Parish Hospital Service District No. 1
(d/b/a St. Tammany Parish Hospital)

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2012 and 2011

		2012		2011
Reconciliation of income from operations to net cash provided by operating activities				
Income from operations	$	14,072	$	15,740
Adjustments to reconcile income from operations to net cash provided by operating activities				
Provision for bad debts		19,970		21,593
Depreciation and amortization		11,199		10,448
Changes in operating assets and liabilities:				
Patient accounts receivable		(18,464)		(28,246)
Inventories, prepaid expenses and other receivables		(419)		(243)
Other assets		(249)		(945)
Accounts payable and accrued expenses		(1,257)		2,235
Accrued employee compensation and vacation		626		1,572
Net settlements due to Medicare and Medicaid intermediaries		174		483
Other long-term liabilities		134		133
Other		(165)		-
Accrued professional liability claims		256		(1,116)
Net cash provided by operating activities	$	25,877	$	21,654

See notes to consolidated 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 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 St. Tammany Parish Hospital Service District No. 1 (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.

Practice Management Consultants (PMC) was formed in 2010 and shall continue perpetually. PMC will provide a variety of management services to physicians. As of December 31, 2012, activity by PMC was not a material part of hospital operations.

The Hospital provides 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.

Significant Accounting Policies:

Basis of Presentation: The consolidated financial statements include the Hospital, St. Tammany Medical Services (STMS), Practice Management Consultants (PMC), and St. Tammany Physician Network (STPN). STMS, PMC and STPN are corporations, which are wholly owned by the Hospital. STMS, PMC and STPN are not, however, exempt from federal taxation. No income taxes were paid or owed for the years ended December 31, 2012 and 2011, by STMS, PMC or STPN. All material intercompany accounts and transactions have been eliminated upon consolidation.

Accounting Standards: In 2012, the Hospital adopted the principles of Governmental Accounting Standards Board (GASB) statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements*. GASB No. 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The adoption of GASB No. 62 does not have any impact on the Hospital's consolidated financial statements.

Note 1. Organization and Significant Accounting Policies (Continued)

In 2012, the Hospital also adopted the provisions of GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement specifies where deferred outflows of resources and deferred inflows of resources, as well as assets and liabilities, should be displayed. It also specifies that net assets will not longer be displayed, replacing that categorization with the term net position. The effect to the Hospital's consolidated financial statements is that its balance sheet is now titled statement of net position, and that any reference to net assets is now replaced with the term net position.

Accounting Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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 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.

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

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. During 2012, the net decrease in fair value of the Hospital's investments, included in investment income was \$647,000. During 2011, the net increase in fair value of the Hospital's investments, included in investment income was \$815,000.

Note 1. Organization and Significant Accounting Policies (Continued)

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 $500. 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. Assets held under capital lease obligations are recorded at the present value of the minimum lease payments and are included in equipment. Amortization of leased assets is included in the Consolidated Statements of Revenue, Expenses, and Changes in Net Assets as Depreciation and amortization expense.

Net Position: In accordance with Governmental Accounting Standards Board (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 Consolidated Statements of Revenues, Expenses and Changes in Fund 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.

Note 1. Organization and Significant Accounting Policies (Continued)

Incentive Revenue – Electronic Health Records: The electronic health records incentive program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for incentive payments under both the Medicare and Medicaid programs to eligible health care entities that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under both the Medicare and Medicaid programs will be contingent upon the Hospital initially attesting to being a meaningful user of EHR technology and then continuing to meet escalating criteria, including other specific requirements that are applicable, for consecutive reporting periods. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. As of December 31, 2012, the Hospital has not initially attested to their being a meaningful user of EHR technology.

Statements of Revenues, Expenses, and Changes in Fund Net Position: All revenues and expenses directly related to the delivery of health care services are included in operating revenues and expenses in the Consolidated Statements of Revenues, Expenses and Changes in Fund Net Position, respectively. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or investment income.

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.

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 $19,970,000 and $21,593,000 for the years ended December 31, 2012 and 2011, 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 the patient.

Note 1. Organization and Significant Accounting Policies (Continued)

During 2012, 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.

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. 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 consolidated 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 $852,320 and $-0-, in 2012 and 2011, 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 Consolidated Statement of Revenues, Expenses, and Changes in Fund Net Position.

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.

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 $5,476,000 and $8,819,000, for the years ended December 31, 2012 and 2011, respectively, based upon charges foregone using established rates.

Unamortized Loss on Advance Refunding: In a prior year, the Hospital incurred a loss in connection with the advance refunding of the Hospital's revenue bonds which has been deferred and is being amortized over the life of the refunded bond issue. Accumulated amortization on this deferred loss was approximately $1,155,000 and $1,061,000, at December 31, 2012 and 2011, respectively, and is included in Interest expense on the Consolidated Statement of Revenues, Expenses, and Changes in Fund Net Position.

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 Consolidated Statements of Net Position.

Note 2. Deposits and Investments

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, 2012 and 2011, the Hospital's bank balances (including cash, money market accounts 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, 2012 and 2011, 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, 2012		**Investment Maturities (in Years)**		
	Carrying	**Less Than**		
Investment Type	**Amount**	**1**	**1 - 5**	**>5**
		(amounts in thousands)		
Federal Farm Credit Bureau	**$ 22,906**	**$ -**	**$ 9,595**	**$ 13,311**
Federal Home Loan Bank	**11,233**	**2,036**	**4,230**	**4,967**
Federal Home Loan Mortgage Corporation	**10,039**	**-**	**4,021**	**6,018**
Federal National Mortgage Association	**25,373**	**-**	**11,114**	**14,259**
Federal Agricultural Mortgage Corporation	**3,496**	**-**	**-**	**3,496**
Total	**$ 73,047**	**$ 2,036**	**$ 28,960**	**$ 42,051**

December 31, 2011		Investment Maturities (in Years)		
	Carrying	Less Than		
Investment Type	Amount	1	1 - 5	>5
		(amounts in thousands)		
Federal Farm Credit Bureau	$ 20,097	$ -	$ 5,387	$ 14,710
Federal Home Loan Bank	27,238	3,114	9,445	14,679
Federal Home Loan Mortgage Corporation	16,048	-	9,014	7,034
Federal Agricultural Mortgage Corporation	6,307	-	1,002	5,305
Federal National Mortgage Association	19,354	-	10,065	9,289
Total	$ 89,044	$ 3,114	$ 34,913	$ 51,017

Note 2. Deposits and Investments (Continued)

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.

As of December 31, 2012, the Hospital's investments were rated AAA by Standard and Poor's and Fitch Ratings and AA+ 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, 2012 and 2011, were as follows:

Issuer	**2012**	2011
Federal Farm Credit Bureau	**31%**	22%
Federal Home Loan Bank	**15%**	31%
Federal Home Loan Mortgage Corporation	**14%**	18%
Federal National Mortgage Association	**35%**	22%
Federal Agricultural Mortgage Corporation	**5%**	7%

Note 2. Deposits and Investments (Continued)

The fair values of deposits and investments included in the Hospital's Consolidated Statements of Net Position as of December 31, 2012 and 2011 are as follows:

	2012	2011
Carrying amount		
Deposits	**$ 78,874**	$ 25,504
Investments	**76,051**	92,050
	$ 154,925	$ 117,554
Included in the following captions		
Current assets:		
Cash and cash equivalents	**$ 44,570**	$ 17,657
Investments	**64,754**	82,402
Noncurrent cash and investments required for current liabilities	**6,144**	3,439
Noncurrent cash and investments:		
Under bond indenture held by Trustee	**21,180**	-
Under bond indenture held by Trustee	**3,392**	605
Under bond ordinances held by Trustee	**7,994**	5,508
By board for capital improvements, and facility enhancements	**11,297**	9,648
By board for Community ER Services	**1,038**	1,034
By others for professional and other liability claims	**700**	700
Less: amount required for current liabilities	**(6,144)**	(3,439)
	$ 154,925	$ 117,554

Noncurrent cash and investments, as indicated above, include amounts with limitations and internal designations concerning their expenditure. Details of significant limitations and designations are as follows:

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.

Note 2. Deposits and Investments (Continued)

The Hospital is required to maintain a $575,000 certificate of deposit held by the Workers' Compensation Fund as collateral against its self-insured portion of workers' compensation claims. The Hospital is also required to maintain a $125,000 certificate of deposit held by the State Treasurer's Office on behalf of the Louisiana Patients' Compensation Fund as collateral against its self-insured portion of professional liability claims.

Of the approximate $135,703,000 and $126,502,000, of unrestricted net assets at December 31, 2012 and 2011, respectively, $12,335,000 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 Consolidated Statements of Net Position, and remain under the board of commissioners, which may at its discretion later use the funds for other purposes.

Interest income and gains and losses were approximately $1,645,000 and $3,814,000, for 2012 and 2011, respectively. Fluctuation in investment income is related to recording changes in investment income, related to market valuation as of December 31st.

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, 2012 and 2011, approximately 30% and 31%, respectively, 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. Estimated settlements for Medicare through December 31, 2009, have been reviewed by program representatives. Estimated settlements for Medicaid have been reviewed through December 31, 2006.

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 changes, and prospectively determined daily rates.

Note 4. Capital Assets

A summary of changes in the Hospital's capital assets during 2012, is as follows (in thousands):

	December 31, 2011	Additions	Transfers and Disposals	December 31, 2012
Capital assets, not being depreciated:				
Land	$ 5,148	$ -	$ -	$ 5,148
Construction in progress	1,705	4,586	(2,399)	3,892
Total capital assets not being depreciated	6,853	4,586	(2,399)	9,040
Capital assets, being depreciated:				
Land improvements	3,773	9	(246)	3,536
Buildings and improvements	103,054	6	827	103,887
Equipment	90,104	6,058	214	96,376
Total capital assets being depreciated	196,931	6,073	795	203,799
Less: total accumulated depreciation	(104,659)	(11,199)	1,492	(114,366)
Total capital assets, being depreciated, net	92,272	(5,126)	2,287	89,433
Organization capital assets, net	$ 99,125	$ (540)	$ (112)	$ 98,473

Depreciation expense reported during the fiscal year ended December 31, 2012 and 2011, was approximately $11,199,000 and $10,448,000 (exclusive of amortization expense), respectively.

Note 4. Capital Assets (Continued)

A summary of changes in the Hospital's capital assets during 2011, is as follows (in thousands):

	December 31, 2010	Additions	Transfers and Disposals	December 31, 2011
Capital assets, not being depreciated:				
Land	$ 5,148	$ -	$ -	$ 5,148
Construction in progress	3,892	9,104	(8,096)	1,705
Total capital assets not being depreciated	9,040	9,104	(8,096)	6,853
Capital assets, being depreciated:				
Land improvements	3,536	9	540	3,773
Buildings and improvements	103,887	50	5,069	103,054
Equipment	96,376	4,892	2,481	90,104
Total capital assets being depreciated	203,799	4,951	8,090	196,931
Less: total accumulated depreciation	(94,217)	(10,448)	6	(104,659)
Total capital assets, being depreciated, net	109,582	(5,497)	8,096	92,272
Organization capital assets, net	$ 118,622	$ 3,607	$ -	$ 99,125

Note 5. Long-Term Debt

The details and balances of long-term debt at December 31, 2012 and 2011, are presented below:

	2012	2011
	(In Thousands)	
Hospital Revenue and Refunding Bonds, Series 2011, net of unamortized original issue discount of \$156,000 and \$170,000 at December 31, 2012 and 2011, respectively	**\$ 51,724**	\$ 54,910
Hospital Revenue Bonds, Series 2012, net of unamortized original issue discount of \$396,000 and \$ -0- at December 31, 2012 and 2011, respectively	**24,454**	-
Less: amounts due within one year	**(5,190)**	(3,200)
Unamortized loss on advance refunding	**(1,036)**	(1,131)
Total long-term debt	**\$ 69,952**	\$ 50,579

Hospital Revenue and Refunding Bonds, Series 2011: On November 1, 2011, the Hospital issued \$55,080,000 of tax-exempt Hospital Revenue and Refunding Bonds, Series 2011 (Series 2011), with an interest rate ranging from 2% to 4.5% to advance refund \$46,925,000 of outstanding 1998 Series Hospital Revenue and Refunding Bonds with interest rates ranging from 4.25% to 5.0%, and to pay off approximately \$6,980,000 of Hospital indebtedness with an average interest rate of 3.5%. The net proceeds were used to purchase U.S. government securities which were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1998 Series bonds. As a result, the 1998 Series bonds are considered to be defeased and the liability for those bonds has been removed from the Hospital's consolidated balance sheet. The Series 2011 bonds were issued at a premium of \$475,651, which is being amortized over the life of the bonds using the interest method. 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 deduction from bonds payable, and is being amortized to operations through the year 2021.

In total, the advance refunding reduces the Hospital's total debt service payments over the next 17 years by approximately \$13,070,000, while providing an economic gain (difference between the present values of the old and new debt service payments) of approximately \$1,665,000.

At December 31, 2012, and 2011, the principle outstanding on the Series 2011 bonds was \$46,690,000 and \$51,880,000, respectively. This Series has a final maturity scheduled for July 1, 2012.

Note 5. Long-Term Debt (Continued)

Hospital Revenue Bonds, Series 2012: On December 11, 2012, the Hospital issued $24,850,000 of tax-exempt Hospital Revenue Bonds, Series 2012 (Series 2012), 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, with an interest rate of 2.70%. The bonds will be used to finance the cost of acquisition and construction of capital projects and equipment at the Hospital, including, but not limited to, funding an expansion to the emergency department, paying the cost of issuance of the bonds and funding a deposit to the debt service reserve fund.

The Series 2012 bonds mature, unless sooner paid, on July 1, 2024, and shall bear interest at the rate of 2.7% per annum. The bonds are secured by the debt service reserve fund that the Hospital must maintain. At December 31, 2012, the principal balance of these outstanding bonds was $24,850,000.

In connection with both the Series 2012 and Series 2011 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 Indenture. As of December 31, 2012, the Hospital was in compliance with the provisions of the Trust Indenture.

A summary of changes in long-term debt during 2012 and 2011, is as follows (in thousands):

	December 31, 2011	Borrowings	Payments	December 31, 2012	Due Within One Year
Hospital Revenue Refunding Bonds, Series 2011	$ 55,080	$ -	$ (3,200)	$ 51,880	$ 5,190
Hospital Revenue Bonds, Series 2012	-	24,850	-	24,850	-
	$ 55,080	$ 24,850	$ (3,200)	$ 76,730	$ 5,190

Note 5. Long-Term Debt (Continued)

	December 31, 2010	Borrowings	Payments	December 31, 2011	Due Within One Year
Hospital Revenue Refunding Bonds, Series 1998	$ 48,655	$ -	$ (48,655)	$ -	$ -
Hospital Revenue Refunding Bonds, Series 2011	-	55,080	-	55,080	3,200
Hospital Indebtedness,					
First Issue - Dec. 2004	605	-	(605)	-	-
Second Issue - Sept. 2005	1,460	-	(1,460)	-	-
Third Issue - Sept. 2009	6,000	-	(6,000)	-	-
	$ 56,720	$ 55,080	$ (56,720)	$ 55,080	$ 3,200

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

December 31,	Principal	Interest
2013	$ 5,190	$ 1,967
2014	5,605	2,161
2015	5,755	2,008
2016	5,890	1,874
2017	6,045	1,718
2018-2022	33,325	5,493
2023-2027	14,920	607
	$ 76,730	$ 15,828

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 2012 and 2011 follows (in thousands):

	2012	2011
Interest cost:		
Charged to non-operating expenses	**$ 1,942**	$ 2,736
	$ 1,942	$ 2,736
Investment income:		
Credited to non-operating income	**$ 1,645**	$ 3,814
	$ 1,645	$ 3,814

Note 6. Commitments

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 $5,295.000 and $4,575,000, for the years ended December 31, 2012 and 2011, respectively.

The future minimum lease payments at December 31, 2012, for non-cancelable operating leases are as follows (in thousands):

2013	$ 4,091
2014	3,393
2015	3,004
2016	2,664
2017	2,664
Total	$ 15,816

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 Consolidated Statements of Net Position were $3,895,000 and $3,768,000, as of December 31, 2012 and 2011, respectively.

Note 8. Employee Benefit Plans

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. The Plan Agreement requires contributions to the Plan equal to 6% of the aggregate compensation of all participants. Participating employees with five or more years of service become 100% vested in their account balance. Employees terminating their employment prior to five years forfeit their account balance.

Total payroll and covered payroll for all Hospital employees during the year ended December 31, 2012, totaled approximately $85,199,000 and $72,387,000 respectively. Total payroll and covered payroll for all Hospital employees during the year ended December 31, 2011, totaled approximately $84,427,000 and $71,196,000, respectively. Contributions during 2012 and 2011 required by the Plan document were approximately $4,688,000 and $4,578,000, respectively, which represents approximately 6.5% of covered payroll. Required contributions paid by the Hospital net of application of forfeiture of non-vested accounts were approximately $4,429,000 and $4,307,000, respectively, during the years ended December 31, 2012 and 2011.

Note 8. Employee Benefit Plans (Continued)

Pension expense included in salaries, wages and benefits related to the Plan described above approximated $4,543,000 and $4,458,000, for the years ended December 31, 2012 and 2011, respectively.

The Hospital 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. The Hospital contributed approximately $1,191,000 and $1,156,000, to the CESP during 2012 and 2011, respectively.

The Hospital has deferred compensation plans for its senior executive staff. During the years ended December 31, 2012 and 2011, the Hospital recognized an expense of approximately $135,000 and $133,000, respectively, in relation to these plans. A corresponding liability of approximately $344,000 and $209,000, is included in the Consolidated Statements of Net Position at December 31, 2012 and 2011, respectively. These compensation arrangements have been established with a goal of executive retention.

Note 9. 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. The Hospital is self-insured for costs up to $100,000 per 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, 2012. 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, 2012, 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.

Note 9. Risk Management, Self-insurance and Contingencies (Continued)

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 $500,000 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, 2012 and 2011, (in thousands):

	Beginning Balance	Expense and Changes in Estimates	Payments	Ending Balance
2011	$ 5,819	$ 13,622	$ 13,164	$ 6,277
2012	**$ 6,277**	**$ 15,509**	**$ 16,109**	**$ 5,677**

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, 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 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.

Note 9. Risk Management, Self-insurance and Contingencies (Continued)

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 $1,000,000 as a component of Settlements due to Medicare and Medicaid intermediaries on the consolidated balance sheets as of December 31, 2012 ad 2011, 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) was 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. Management of the Hospital is studying and evaluating the anticipated effects and developing strategies needed to prepare for implementation, and is preparing to work cooperatively with other consultants to optimize available reimbursement.

Note 10. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom 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:

	2012	2011
Medicare	**21%**	24%
Medicaid	**6**	6
Insurance/Managed Care	**52**	53
Patients	**21**	17
	100%	100%

Note 11. St. Tammany Hospital Foundation Cooperative Endeavor Agreement

The Hospital receives support from the St. Tammany Parish Hospital Foundation (the 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. It is currently not considered a component unit of the Hospital under the criteria established by Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units an Amendment of GASB Statement 14*.

Note 11. St. Tammany Hospital Foundation Cooperative Endeavor Agreement (Continued)

The Foundation's net assets as of December 31, 2012 and 2011, were $5,038,000 and $4,500,000 respectively. Contributions recognized by the Hospital in the form of monetary and non-monetary contributions and donations were $1,150,000 and $889,000, in 2012 and 2011, 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.

The agreement, which became effective in 2008, replaced a similar previously executed agreement between the two entities, and may generally be terminated by either party with, or without cause, subject to the required notice provisions ranging from 30 to 60 days.

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, 2012 and 2011 financial statements in connection with the agreement were $492,000 and $421,000, respectively. It is at least reasonably possible that as the economic resources received and/or held by the Foundation grow in significance to the Hospital, that inclusion as a component unit in the Hospital's financial statements may be necessary.

Note 12. Medicaid Disproportionate Share Hospital Reimbursement Cooperative Endeavor Agreement

The Centers for Medicare and Medicaid Services (CMS) approved Medicaid State Plan Amendments (SPA), submitted by the Louisiana Department of Health and Hospitals (DHH), which provides for reimbursement to non-rural, non-state public hospitals up to the Medicare inpatient upper payment limits.

On November 29, 2011, the Hospital entered into a cooperative endeavor agreement with eleven other Louisiana hospital services districts (HSDs). Under this agreement, one of the member hospitals has agreed to cooperate in the establishment of a grant program by contributing a portion of the upper payment limit (UPL) payments that result from SPAs to the HSDs for the purpose of ensuring adequate and essential healthcare services are accessible and available to low-income and/or indigent citizens and medically underserved non-rural populations in Louisiana. The term of this agreement is one year with automatic renewals for additional terms of one year unless earlier terminated.

Note 12. Medicaid Disproportionate Share Hospital and Physician Reimbursement Cooperative Endeavor Agreement (Continued)

The Hospital received funds under this grant program in the amount of approximately $2,052,000 and $1,712,000, in 2012 and 2011, respectively. The funds are presented as other operating revenues on the Consolidated Statements of Revenue, Expenses, and Changes in Fund Net Position.

On December 8, 2011, the Organization entered in to an agreement with DHH which was approved by CMS. Under the program DHH began making payments under the Physician's Supplemental Payment Program for non-state owned public hospitals (HSD's) 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 DHH to be used as Medicaid matching funds for the purpose of making physician supplemental payments and providing the State with additional resources to assist in the medical costs to the State.

These matching funds are comprised of (1) an amount to be utilized as the "non-federal share" of the supplemental payments for services provided by the identified physician; and other healthcare professionals and (2) the "state retention amount," which is fifteen percent of the "non-federal share", for the State to utilize in delivering healthcare services. In turn, DHH 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 grant program in the amount of approximately $1,101,000 in 2012. The funds are presented as other operating revenues on the Consolidated Statements of Revenue, Expenses, and Changes in Fund Net Position. Associated with these payments are required inter-governmental payments in the amount of approximately $165,000 in 2012. The funds are presented as other non-operating expenses on the Consolidated Statements of Revenue, Expenses, and Changes in Fund Net Position.

Note 13. 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.

Note 13. Mary Bird Perkins Cancer Center Cooperative Endeavor Agreement (Continued)

Under this CEA, MPBCC 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.

In conjunction with this cooperative endeavor, the Hospital also entered into a management services agreement (MSA) with MBPCC. Through the MSA, the Hospital is responsible for providing or procuring all equipment and information technology and nursing and support personnel, necessary to provide the patient services. MBPCC is responsible for providing all equipment and information technology, administrative personnel, Medical Oncology professional services, and billing and collection services. The Hospital must pay a management fee of 6% of net revenue that MBPCC bills and collects on the Hospital's behalf. The Hospital must also pay MBPCC for the medical oncology professional services and physician supervision performed in association with the Hospital's service line offerings.

The term of this agreement is seven years, ending on April 3, 2018, with the right to extend the agreement for two successive seven-year extended periods under the same terms. As of December 31, 2012 and 2011 amounts due to MBP were approximately $273,000 and $431,000, respectively and are included in Accounts payable and accrued expenses in the Consolidated Statements of Net Position.

Note 14. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were issued, March 19, 2013. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements. Based on such evaluation, no events have occurred that, in the opinion of management, warrant recognition in the financial statements or disclosure in the notes to the financial statements as of December 31, 2012, other than that noted below.

Effective January 10, 2013, St. Tammany Quality Network, L.L.C. was formed. The Operating Agreement of the L.L.C. provides that: (i) the Company 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 the L.L.C. 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 Company.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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 consolidated basic financial statements 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, 2012, and the related notes to the consolidated financial statements, which collectively comprise St. Tammany Parish Hospital's consolidated basic financial statements, and have issued our report thereon dated March 19, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the St. Tammany Parish Hospital Service District No. 1's consolidated 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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

LaPorte

A Professional Accounting Corporation

Metairie, Louisiana
March 19, 2013

A. STATUS OF FINDINGS FROM PRIOR YEAR'S FINANCIAL STATEMENT AUDIT

2011-01 Compliance with Public Bid Law

Observation: During the year ended December 31, 2011, we noted that the Hospital did not comply with the provisions of the public bid law, LSA-RS Title 38:2211, and the regulations of the Division of Administration State Purchasing office. The Hospital did not have sufficient controls in place to ensure that purchases of material and supplies with a value of $30,000, or more, were procured in accordance with the public bid law.

Management Response and Corrective Action: Management has reviewed its procurement policies and made the appropriate changes to ensure the Hospital is in compliance with State requirements in the future.

Current Status – Resolved.