

**ST. TAMMANY PARISH HOSPITAL
SERVICE DISTRICT NO. 2**

d/b/a SLIDELL MEMORIAL HOSPITAL

**Consolidated Financial Statements
December 31, 2011 and 2010**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **MAY 16 2012**



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**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

Management's Discussion and Analysis

This section of St. Tammany Parish Hospital Service District No. 2's (Slidell Memorial Hospital, or "SMH" or the "Hospital") annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal year that ended on December 31, 2011. This should be read in conjunction with the financial statements in this report.

Executive Summary

The Hospital continued to make strategic investments in physician alignment, service growth, and quality improvement to position the facility for the future. In the fourth quarter of 2011, the decision was made to increase the hospitalist group from 8 to 10 physicians. The group is now attending 60% of the hospitalized patients. The hospitalists focus on excellent patient satisfaction and best practice medicine. Unfortunately, the group did not achieve expectations during 2011 due to 75% physician turnover. As a result, many part time and locum doctors have been used to fill the schedule. Permanent quality physician replacements have been secured for the second quarter of 2012. The hospitalist program also alleviates the emergency department call burden on primary care physicians. Management and the Board are committed to this strategy of reducing variation in medical practice and increasing access to primary care in the market place. The SMH Physician Network continues to add employed physicians as well.

The Hospital opened the state of the art comprehensive cancer center in January 2011. The funding of the project is due to substantial public support for the hospital cancer program. During 2007, the Hospital went before the voting public and received a 79.4% "yes" vote in favor of a \$17.5 million bond issue funded by a property tax designated to build and equip the facility. The 2011 growth of the cancer service line is evidence of the need and opportunity for this project. The cancer service line grew from \$5.4 million of contribution margin in 2010 to \$6.5 million in 2011. One of the two medical oncology groups signed an affiliation agreement with the Hospital during the second quarter which further indicates the medical staff support of this initiative.

As a result of the focus on quality and patient safety, the Hospital received many awards and recognitions in 2011. The EQ Health Solutions Capstone Award is the highest level of achievement in the area of core measures and outcome indicators in Louisiana. The Hospital also received the Silver Award for Surgical Care Improvement Program metrics from EQ Solutions. Healthgrades ranked the Hospital's gastro-intestinal services with 5-Stars. The American Heart Association awarded the Silver Award for Get with the Guidelines compliance for heart failure protocol. The American Heart Association awarded SMH the Community Innovation Award. The Hospital was named the Chamber of Commerce Member of the Year. Dr. Stephen Hightower was named one of the Great New Orleans doctors. Two SMH nurses were named to the Top 100 Nurses in Louisiana voted by their peers. Five SMH employees were named Healthcare Heroes by New Orleans City Business. And the Director of Pharmacy was named preceptor of the year by Xavier University School of Pharmacy.

Not unlike many states, Louisiana faced significant budget challenges in 2009 and 2010. As a result of three rate reductions and elimination of an uncompensated care pool, SMH incurred a \$2.2 million payment cut in the year 2010 with the fully mature rate reductions expected in 2011 which will top \$5.3 million annually. Due to unfunded programs, the State of Louisiana Department of Health and Hospitals (DHH) leaves approximately \$800 million of federal Medicaid match on the table each year.

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Management's Discussion and Analysis

During 2011, management was able to work with DHH to implement several new community affiliation programs to offset approximately 85% of the \$5.3 million annual impact of previous cuts.

Financial Highlights

Net patient service revenue increased by 1.4%, from the prior year. Other than the cancer service line, volumes were flat or slightly down year-over-year. This is somewhat positive relative to national trends reporting hospital volumes were down significantly year-over-year for 2011. Although not as dramatic as 2010, the Hospital continued to see a shift of payer mix out of managed care into Medicare and Medicaid volumes.

Operating expenses before depreciation and amortization in 2011 increased only 1% from the prior year reflecting cost savings initiatives such as the enrollment in the Federal 340B program on October 1, 2011 and the community service efforts of the Low Income Needy Care Collaboration. Management operates the facility on a daily productivity management system to flex variable labor by shift. Departmental Operating Statements are published monthly with flex budget reporting to guide management on budget variance action plans.

The Hospital's total net assets decreased by \$0.8 million from the prior year. The assets of the Hospital exceeded liabilities at the close of the 2011 fiscal year by \$67.0 million. Of this amount, \$25.5 million (unrestricted net assets) may be used to meet ongoing obligations to the Hospital's patients and creditors, and \$33.4 million is invested in capital assets, net of related debt.

Overview of the Financial Statements

This annual report consists of four components - the Management's Discussion and Analysis of Financial Condition and Operating Results (this section), the Independent Auditor's Report, the Consolidated Financial Statements, and Supplementary Information.

The Consolidated Financial Statements of Slidell Memorial 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.

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Management's Discussion and Analysis

The Consolidated Statement of Net Assets includes 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 Net Assets*. 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 Statement of Cash Flows is to provide information about the Hospital's cash from operations, investing, and financing activities. The cash flow statement outlines 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.

Following the notes to the consolidated financial statements is a section containing supplementary information that further explains and supports the information reported in the consolidated financial statements. This section includes optional consolidating schedules.

Financial Analysis of the Hospital

The consolidated balance sheets and the consolidated statements of revenue, expenses, and changes in net assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and changes in them. Increases or improvements, as well as decreases or declines in the net assets, are one indicator of the financial state of the Hospital. Other non-financial factors that should also be considered include changes in economic conditions (including uninsured and working poor) and population growth.

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Management's Discussion and Analysis

Net Assets

A summary of the Hospital's balance sheet is presented in the following table:

Condensed Consolidated Statement of Net Assets
(In Thousands)

| | Fiscal Year 2011 | Fiscal Year 2010 | Fiscal Year 2009 |
|---|---------------------|---------------------|---------------------|
| Current and other assets | \$ 84,216 | \$ 82,603 | \$ 96,643 |
| Capital assets, net | 71,707 | 68,012 | 54,183 |
| Total assets | \$ 155,923 | \$ 150,615 | \$ 150,826 |
| Long-term debt outstanding | \$ 71,346 | \$ 64,064 | \$ 67,477 |
| Other liabilities | 17,542 | 18,746 | 17,043 |
| Total liabilities | \$ 88,888 | \$ 82,810 | \$ 84,520 |
| Invested in capital assets, net of related debt | \$ 33,410 | \$ 30,019 | \$ 23,020 |
| Restricted | 8,143 | 7,569 | 7,328 |
| Unrestricted | 25,482 | 30,217 | 35,958 |
| Total net assets | \$ 67,035 | \$ 67,805 | \$ 66,306 |

December 31, 2011

Long term debt increased \$7 million while other and capital assets increased \$5 million reflecting the net effect of the latest expansion project related debt issuance, proceeds, investment in capital, and depreciation of existing capital assets.

December 31, 2010

Current assets decreased \$14 million while capital assets increased \$14 million reflecting the net effect of investing \$21.2 million in new capital assets less depreciation of \$7.4 million on existing capital assets. The largest investment in new capital assets is the construction and equipment involved in the new cancer center.

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Management's Discussion and Analysis

Summary of Revenues, Expenses, and Changes in Net Assets

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended December 31, 2011, 2010 and 2009:

**Condensed Consolidated Statements of Revenues, Expenses, and
Changes In Net Assets
(In Thousands)**

| | Fiscal Year 2011 | Fiscal Year 2010 | Fiscal Year 2009 |
|---|---------------------|---------------------|---------------------|
| Net patient service revenue | \$ 124,730 | \$ 123,066 | \$ 122,160 |
| Other operating revenue excluding interest income | 2,993 | 2,854 | 2,906 |
| Total operating revenues | 127,723 | 125,920 | 125,066 |
| Operating expenses before depreciation/amortization | 119,164 | 118,179 | 116,082 |
| Earnings before interest depreciation and amortization and non-operating revenues (expenses) (EBIDA) | 8,559 | 7,741 | 8,984 |
| Depreciation and amortization expense | 9,763 | 7,723 | 8,666 |
| Operating net income (loss) | (1,204) | 18 | 318 |
| Non-operating revenues (expenses): | | | |
| Interest income | 252 | 352 | 391 |
| Interest expense | (2,421) | (1,919) | (2,179) |
| Property tax revenue | 3,832 | 3,551 | 2,905 |
| Other, net | (1,229) | (503) | 78 |
| Excess (deficiency) of revenues over expenses | (770) | 1,499 | 1,513 |
| Total net assets - beginning of year | 67,805 | 66,306 | 64,793 |
| Total net assets - end of year | \$ 67,035 | \$ 67,805 | \$ 66,306 |

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Management's Discussion and Analysis

The following table represents the relative percentage of gross charges billed for patient services by payer for the fiscal years ended December 31, 2011, 2010 and 2009:

| | Fiscal Year 2011 | Fiscal Year 2010 | Fiscal Year 2009 |
|---------------------------------------|---------------------|---------------------|---------------------|
| Medicare & Medicare HMO | 52% | 51% | 47% |
| Medicaid | 12% | 12% | 11% |
| Managed care and commercial insurance | 32% | 33% | 37% |
| Uninsured patients | 4% | 4% | 5% |
| Total gross charges | 100% | 100% | 100% |

Operating and Financial Performance

The following summarizes the Hospital's Statements of Revenues, Expenses, and Changes in Net Assets between 2011, 2010 and 2009:

- In 2011, the Hospital had 6,500 acute inpatient admissions. This is a decrease of 10.8% from fiscal year 2010. This is offset by a 25.8% increase in observation admissions in 2011. During 2010, the Hospital had 7,289 acute inpatient admissions. This is an increase of 1.5% from fiscal year 2009.
- Emergency registrations were 28,386 and 28,007 in 2011 and 2010, respectively. Representing an increase of 1.4% in 2011 over 2010. There was decrease of 2.1% in 2010 compared to fiscal year 2009.
- During 2011, net patient service revenue increased \$1.7 million, or 1.4%, from 2010. During 2010, net patient service revenue increased \$0.9 million, or 0.7%, from 2009.
- During 2011, salaries, wages and benefits increased 1.6% from prior year reflecting increased staff required to handle volume increases. During 2010, salaries, wages and benefits decreased 2.1% from 2009.
- During 2011, supplies and materials increased approximately 6.0% compared to 2010 primarily reflecting 131% growth in chemotherapy patient and 4% growth in orthopedic surgeries. During 2010, supplies and materials increased 6.2% compared to 2009.
- Professional Fees decreased 27% from 2010 to 2011, compared to a decrease of 2% from 2009 to 2010.
- Other Direct expenses decreased 4.1% from 2009 to 2010. These expenses increased by approximately 8.9% in 2011 over the previous year as a portion of costs previously reflected as professional fees were transitioned to collaborative agreements in the current year.
- Purchased Services decreased 6.6% from 2010 to 2011, and 8.2% from 2009 to 2010.

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Management's Discussion and Analysis

Performance Against Budget

| | FY 2011 Budget | FY 2011 Actual | Favorable (Unfavorable) Variance |
|---|---------------------------|---------------------------|---|
| Revenues: | | | |
| Net patient service revenue | \$ 124,721 | \$ 124,730 | \$ 9 |
| Other operating revenue | 2,759 | 2,993 | 234 |
| Total operating revenues | 127,480 | 127,723 | 243 |
| Operating expenses: | | | |
| Salaries, wages and benefits | 63,778 | 62,162 | 1,616 |
| Supplies and other | 42,441 | 44,971 | (2,530) |
| Professional and contractual services | 13,315 | 12,031 | 1,284 |
| Total operating expenses before depreciation/ amortization and non-operating revenues (expenses) | 119,534 | 119,164 | 370 |
| EBIDA | 7,946 | 8,559 | 613 |
| Interest income | 350 | 252 | (98) |
| Interest expense | (2,286) | (2,421) | (135) |
| Depreciation and amortization | (10,084) | (9,763) | 321 |
| Non-operating revenue, net | 4,136 | 2,603 | (1,533) |
| Excess (deficiency) of revenues over expenses | 62 | (770) | (832) |
| Decrease in net assets | \$ 62 | \$ (770) | \$ (832) |

Capital Assets

| | Fiscal Year 2011 | Fiscal Year 2010 | Dollar Change | Percent Change |
|---------------------------------------|-----------------------------|-----------------------------|--------------------------|---------------------------|
| Land and land improvements | \$ 8,034 | \$ 8,007 | \$ 27 | 0% |
| Building and leasehold improvements | 90,843 | 74,737 | 16,106 | 22% |
| Equipment | 76,204 | 68,093 | 8,111 | 12% |
| Construction in progress | 1,580 | 15,837 | (14,257) | -90% |
| Subtotal | 176,661 | 166,674 | 9,987 | 6% |
| Less: accumulated depreciation | (104,954) | (98,662) | (6,292) | 6% |
| Net capital assets | \$ 71,707 | \$ 68,012 | \$ 3,695 | 5% |

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Management's Discussion and Analysis

Economic Factors and Next Year's Budget

The Hospital's Board and Management considered many factors when setting the fiscal year 2012 budget. Ochsner Hospital Foundation took over operations at Northshore Regional Medical Center in April of 2010. NSRMC is a full service acute care hospital approximately two miles from SMH. Ochsner has a mature physician employment model. The Ochsner model excels at keeping volume steerage within the affiliated provider organizations. Ochsner continues to make strong plays on key physicians in Slidell. Conversely, SMH continues to recruit physicians heavily toward employment or traditional independent practice on the SMH campus. To date, NSRMC and SMH have both deploy tactics aimed at physician courtship, without either hospital incurring significant aggregate volume impact. In addition, the broad economy is of significant importance in setting the 2012 budget, which takes into account market forces and environmental factors such as:

- The effect of general weakness in the broad economy signaling changes in employment, employment related benefits, and ultimately managed care tightness on utilization and rates. Specifically, one of the largest if not the largest private employer of residents in our area closed operations during 2010 with final layoffs in 2011 and the year 2012 will reflect the full impact of the plant closure.
- The State of Louisiana continues to face deficits which place Medicaid rates and other reimbursement methods at risk. Hospital Medicaid rates are currently expected to take a 2% hit in July 2012. Management continues to educate lawmakers about the rate inequity among Louisiana hospitals.
- SMH will continue investment in physician alignment and information systems which are anticipated to be a key part of long term success if not survivability of hospitals in an era of pay for performance, bundled payment, and/or accountable care organizations.
- The industry will continue to face growing utilization of costly technology without adequate reimbursement.
- The industry will continue to face growing number of high cost of drugs such as chemotherapy agents and new genetic custom specialty drugs without adequate reimbursement.
- The industry will continue to face increased compliance costs due to pay for performance, HIPAA and other regulations.

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, Slidell Memorial Hospital, 1001 Gause Blvd. Slidell, LA 70458.



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Independent Auditor's Report

To the Board of Commissioners
St. Tammany Parish Hospital Service District No. 2
Slidell, Louisiana

We have audited the accompanying consolidated balance sheets of St. Tammany Parish Hospital Service District No. 2 (d/b/a Slidell Memorial Hospital) (the Organization) as of December 31, 2011 and 2010, and the related consolidated statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended, which collectively comprise the Organization's consolidated basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Organization's management. Our responsibility is to express opinions on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2011 and 2010 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Slidell Memorial Hospital as of December 31, 2011 and 2010, 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.

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In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2012, on our consideration of the Slidell Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages i through viii is not a required part of the consolidated basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Organization's consolidated basic financial statements. The Schedule of Compensation Paid to Board of Commissioners, as listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.



A Professional Accounting Corporation

April 19, 2012

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Consolidated Balance Sheets
December 31, 2011 and 2010

| | 2011 | 2010 |
|--|-----------------------|-----------------------|
| Assets | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 43,115,489 | \$ 44,682,277 |
| Patient Accounts Receivables, Net of Allowances for Uncollectible Accounts of \$6,497,059 and \$6,423,477 in 2011 and 2010, Respectively | 15,496,444 | 16,386,735 |
| Assets Whose Use is Limited, Required for Current Liabilities | 3,121,035 | 2,938,198 |
| Inventories | 3,131,477 | 2,961,302 |
| Prepaid Expenses and Other Receivables | 4,790,901 | 2,906,200 |
| Total Current Assets | 69,655,346 | 69,874,712 |
| Assets Whose Use is Limited or Restricted | | |
| By Board or Under Agreements for Capital Improvements and Debt Service | 13,278,830 | 11,623,518 |
| By Donors | 328,980 | 190,205 |
| By State Department of Workers' Compensation | 700,000 | 700,000 |
| Total Assets Whose Use is Limited or Restricted | 14,307,810 | 12,513,723 |
| Capital Assets | | |
| Land and Improvements | 8,033,615 | 8,007,036 |
| Buildings and Improvements | 90,842,903 | 74,737,225 |
| Equipment | 76,204,466 | 68,093,239 |
| Construction in Progress | 1,579,519 | 15,836,537 |
| | 176,660,503 | 166,674,037 |
| Less: Accumulated Depreciation | (104,953,674) | (98,661,759) |
| Capital Assets, Net | 71,706,829 | 68,012,278 |
| Other Assets, Net | 252,722 | 214,391 |
| Total Assets | \$ 155,922,707 | \$ 150,615,104 |

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

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**Consolidated Balance Sheets (Continued)
December 31, 2011 and 2010**

| | 2011 | 2010 |
|---|-----------------------|-----------------------|
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Trade Accounts Payable | \$ 6,172,178 | \$ 6,043,216 |
| Salaries, Wages and Benefits Payable | 1,279,115 | 1,428,214 |
| Accrued Paid Time Off Payable | 2,131,192 | 2,358,156 |
| Accrued Interest and Other Expenses | 4,765,741 | 4,828,679 |
| Amounts Due Within One Year on Capital Lease Obligations | 248,527 | 1,242,334 |
| Amounts Due Within One Year on Bonds Payable | 1,875,000 | 1,825,000 |
| Amounts Due Within One Year on Hospital Indebtedness and Notes Payable | 1,070,000 | 1,020,000 |
| Total Current Liabilities | 17,541,753 | 18,745,599 |
| Capital Lease Obligations, Less Amounts Due Within One Year | - | 248,528 |
| Bonds Payable, Less Amounts Due Within One Year | 40,560,000 | 32,635,000 |
| Hospital Indebtedness, Less Amounts Due Within One Year | 3,500,000 | 4,570,000 |
| Community Disaster Loan, Including Accrued Interest | 27,285,844 | 26,610,977 |
| Commitments and Contingencies (Notes 6, 7 and 9) | - | - |
| Total Liabilities | 88,887,597 | 82,810,104 |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | 33,410,292 | 30,019,322 |
| Restricted for Debt Service and Workers' Compensation | 8,142,875 | 7,568,767 |
| Unrestricted | 25,481,943 | 30,216,911 |
| Total Net Assets | 67,035,110 | 67,805,000 |
| Total Liabilities and Net Assets | \$ 155,922,707 | \$ 150,615,104 |

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

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Consolidated Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended December 31, 2011 and 2010

| | 2011 | 2010 |
|--|----------------------|----------------------|
| Revenues | | |
| Net Patient Service Revenue | \$ 124,730,293 | \$ 123,065,856 |
| Other Revenue | 2,993,176 | 2,853,965 |
| Total Revenues | 127,723,469 | 125,919,821 |
| Operating Expenses | | |
| Salaries and Wages | 52,072,353 | 51,961,272 |
| Employee Benefits | 10,090,272 | 9,201,421 |
| Supplies and Materials | 29,884,049 | 28,202,562 |
| Other Direct Expenses | 15,086,748 | 13,857,680 |
| Professional Fees | 6,925,445 | 9,491,520 |
| Purchased Services | 5,105,546 | 5,463,984 |
| Depreciation and Amortization | 9,762,584 | 7,722,684 |
| Total Operating Expenses | 128,926,997 | 125,901,123 |
| Operating (Loss) Income | (1,203,528) | 18,698 |
| Non-Operating Revenues (Expenses) | | |
| Interest Income | 251,780 | 351,775 |
| Interest Expense | (2,421,037) | (1,919,330) |
| Property Tax Revenue | 3,832,221 | 3,551,102 |
| Loss on Disposal of Assets | (1,072,841) | - |
| Other, Net | (156,485) | (503,480) |
| Total Non-Operating Revenues, Net | 433,638 | 1,480,067 |
| Change in Net Assets | (769,890) | 1,498,765 |
| Net Assets, Beginning of Year | 67,805,000 | 66,306,235 |
| Net Assets, End of Year | \$ 67,035,110 | \$ 67,805,000 |

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

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

| | 2011 | 2010 |
|--|----------------------|----------------------|
| Cash Flows from Operating Activities | | |
| Cash Received from Patient Services | \$ 125,616,624 | \$ 123,518,457 |
| Cash Paid to or on Behalf of Employees | (62,615,906) | (61,118,929) |
| Cash Paid for Supplies and Services | (58,385,484) | (54,427,759) |
| Cash Received from Federal and State Programs | 2,414,261 | 1,695,524 |
| Net Cash Provided by Operating Activities | 7,029,495 | 9,667,293 |
| Cash Flows from Non-Capital Financing Activities | | |
| Other Non-Operating Revenues (Expenses), Net | (156,485) | (503,480) |
| Net Cash Used in Non-Capital Financing Activities | (156,485) | (503,480) |
| Cash Flows from Capital and Related Financing Activities | | |
| Purchase of Capital Assets | (14,584,089) | (21,473,818) |
| Proceeds from Bond Issuance | 9,800,000 | - |
| Principal Payments on Long-Term Debt and Capital Lease Obligations | (4,087,335) | (4,392,399) |
| Dedicated Property Tax Revenue Received | 3,457,222 | 3,326,101 |
| Costs of Debt Issue | (56,588) | - |
| Interest Payments | (1,620,085) | (1,296,239) |
| Proceeds from Sale of Capital Assets | 1,222 | 41,406 |
| Net Cash Used in Capital and Related Financing Activities | (7,089,653) | (23,794,949) |
| Cash Flows from Investing Activities | | |
| (Decrease) Increase in Assets Whose Use is Limited or Restricted | (1,601,925) | 11,118,349 |
| Interest Earned on Investments | 251,780 | 351,775 |
| Net Cash (Used in) Provided by Investing Activities | (1,350,145) | 11,470,124 |
| Decrease in Cash and Cash Equivalents | (1,566,788) | (3,161,012) |
| Cash and Cash Equivalents, Beginning of Year | 44,682,277 | 47,843,289 |
| Cash and Cash Equivalents, End of Year | \$ 43,115,489 | \$ 44,682,277 |

Supplemental Disclosure of Non Cash Investing and Financing Activities

During the year ended December 31, 2011, Capital assets with an original cost basis of \$4,540,476, and a net book value of \$1,164,390, were disposed. These assets consisted principally of older structures that were abandoned and razed to allow for the Hospital's expansion and new construction.

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

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

**Consolidated Statements of Cash Flows (Continued)
For the Years Ended December 31, 2011 and 2010**

| | 2011 | 2010 |
|---|---------------------|---------------------|
| Reconciliation of Operating Income to Net Cash | | |
| Provided by Operating Activities | | |
| Operating (Loss) Income | \$ (1,203,528) | \$ 18,698 |
| Adjustments to Reconciliation of Operating Income to | | |
| Net Cash Provided by Operating Activities | | |
| Depreciation and Amortization | 9,762,584 | 7,722,684 |
| Other Non-cash Items | - | 2,580 |
| Changes in Operating Assets and Liabilities | | |
| Patient Accounts Receivable | 890,291 | (845,940) |
| Inventories and Other Operating Assets | (2,109,813) | 711,111 |
| Accounts Payable and Accrued Expenses | (310,039) | 2,058,160 |
| Net Cash Provided by Operating Activities | \$ 7,029,495 | \$ 9,667,293 |

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

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies

Organization

The consolidated basic financial statements include the accounts of the following entities:

Slidell Memorial Hospital (the Hospital) is a nonprofit corporation organized as St. Tammany Parish Hospital Service District No. 2 (the District), a political subdivision of the state of Louisiana as established in Act 180 of the 1984 Regular Session of the Legislature, as amended, and is exempt from federal and state income taxes. The governing authority of the District is the St. Tammany Parish Hospital Service District No. 2 Board of Commissioners (the Board), which are appointed by a cross-section of representatives of city, parish, and state government bodies. The Board is authorized to oversee the assets and govern the operations of the District. The Hospital operates a full service acute care community hospital.

Slidell Memorial Hospital Foundation, Inc. and its predecessor, Slidell Memorial Health Foundation, Inc., collectively herein referred to as **the Foundation.** The predecessor was dissolved in 2010. As of December 31, 2010, the Foundation is comprised of a Louisiana non-profit corporation exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The Foundation's sole member is St. Tammany Hospital Service District No. 2 (the District). The Foundation is operated by the District and was formed to provide the Hospital with supplemental funds for certain programs and other support.

SMH Physician Practice Services, Inc. (PPS) is a Louisiana non-profit corporation originally organized to assist the Hospital in providing medical services to the community in a cost effective and efficient manner by assuring the availability of competent health care personnel. PPS is owned by the District and is a taxable non-profit corporation. PPS is currently inactive.

Slidell Radiation Center, Inc. (SRC) is a Louisiana non-profit corporation organized to purchase and operate a radiation facility. SRC is owned and operated by the District and is a taxable non-profit corporation.

The Hospital, the Foundation, PPS, and SRC are collectively referred to as the Organization. There are no other organizations or agencies whose financial statements should be consolidated and presented with these consolidated financial statements.

Principles of Consolidation

As mentioned above, the accompanying consolidated financial statements include the accounts and transactions of the Hospital, the Foundation, PPS, and SRC. All significant intercompany accounts and transactions have been eliminated in consolidation.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Use of Estimates

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

The determination of the allowance for uncollectible accounts receivable and amounts estimated to be recovered from third party payors are particularly sensitive estimates subject to change.

Basis of Accounting

The Organization utilizes the accrual basis of accounting for proprietary funds. Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Funds Accounting*, as amended, the Organization has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Cash and Cash Equivalents

Cash and cash equivalents are recorded at fair value. The Organization reports short-term, highly liquid investments whose use is not limited (that are both readily convertible to known amounts of cash and mature within three months or less from date of purchase) as cash equivalents. As of December 31, 2011 and 2010, the Organization's cash, cash equivalents, and certificates of deposit were entirely insured or collateralized with securities held by its agent in the Organization's name.

Inventories

Inventories, which consist primarily of drugs and supplies, are valued at the lower of cost (first-in, first-out method) or market.

Capital Assets

Land, buildings, and equipment acquisitions are recorded at historical cost except for assets donated to the Organization. Donated assets are recorded at fair value on the date of donation. Depreciation of buildings and equipment is computed using the straight-line method in amounts sufficient to amortize the cost of these assets over their estimated useful lives.

Equipment held under capital lease obligations has been recorded at the present value of the minimum lease payment. Amortization of leased assets is included in depreciation and amortization expense.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted consists of cash and investments reported at fair value with gains and losses included in the consolidated statements of revenues, expenses and changes in net assets.

Other Assets

Other assets consist of the unamortized portion of debt issuance costs.

Debt issuance costs are amortized over the term of the related debt issue using a method that approximates the interest method. Accumulated amortization on bond issuance costs was \$101,731 and \$83,474, at December 31, 2011 and 2010, respectively.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, consisting of property and equipment and cost in excess of net assets acquired, for impairment and determines whether an event or change in facts and circumstances indicates that their carrying amount may not be recoverable. The Organization determines recoverability of the assets by comparing the carrying value of the asset to net future undiscounted cash flows that the asset is expected to generate. The impairment recognized is the amount by which the carrying amount exceeds the fair market value of the asset. There were no asset impairments recorded during 2011 and 2010.

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 Organization 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 Organization is exposed to certain credit risks. The Organization manages such risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances. Provisions for bad debts are reported as offsets to net patient service revenues consistent with reporting practices for governmental entities.

Medicare and Medicaid Reimbursement Programs

The Hospital is reimbursed under the Medicare Prospective Payment System 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 Diagnosis Related Group (DRG) assigned to the patient. In addition, the Hospital is paid prospectively for Medicare inpatient capital costs based on the federal specific rate. The Hospital qualifies as a disproportionate share provider under the Medicare regulations. As such, the Hospital receives an additional payment for Medicare inpatients served. Except for Medicare disproportionate share reimbursement and Medicare bad debts, there is no retroactive settlement for inpatient costs under the Medicare inpatient prospective payment methodology.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

The Hospital is paid a prospective per diem rate for 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.

Medicare outpatient services (excluding clinical lab and outpatient therapy) 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 (excluding ambulatory surgery, therapy and clinical lab) are reimbursed at 69.71% of the lower of cost or charges as of December 31, 2011. Medicare and Medicaid outpatient clinical lab and Medicaid ambulatory surgery and outpatient therapy 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. The difference between a final settlement and an estimated settlement in any year is reported as an adjustment of net patient service revenue in the year the final settlement is made.

Grants and Contributions

From time to time, the Hospital and its Foundation 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. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted Resources

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

Net Assets

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*, net assets are classified into three components - invested in capital assets, net of related debt; restricted; and unrestricted.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

These classifications are defined as follows:

Invested in Capital Assets, Net of Related Debt

This component of net assets consists 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.

Restricted

This component of net assets consists of constraints placed on net asset use through external constraints 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

This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Employee Health and Workers' Compensation Insurance

The Organization 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 interest and other expenses on the consolidated balance sheets.

Statements of Revenues, Expenses, and Changes in Net Assets

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 net assets. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or investment income.

Property Tax Revenues

The Hospital receives dedicated property tax revenues in amounts sufficient to fund annual debt maturities of the general obligation bonds and related interest costs (see Note 7). Such revenues are considered non-operating in the accompanying consolidated statements of revenues, expenses and changes in net assets. Unexpended property tax revenues are accumulated in a restricted fund held in trust and are exclusive for governmental debt service.

Capitalized Interest

The Organization capitalizes interest cost incurred on funds used to construct property, plant, and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost, net of related interest revenue on borrowed funds, capitalized in connection with construction was \$79,135 and \$622,900, in the years ended December 31, 2011 and 2010, respectively.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Compensated Absences

The Organization's employees earn paid time off at varying rates depending on years of service. The estimated amount of paid time off as termination payments is reported as a component of the current liability for salaries wages and benefits payable in both 2011 and 2010.

Note 2. Cash and Assets Whose Use is Limited or Restricted

Custodial Credit Risk - Deposits: Statutes authorize the Organization to invest in direct obligations of the U.S. Government, certificates of deposit of state banks and national banks having their principal office in the State of Louisiana, and any other federally insured investments, guaranteed investment contracts issued by a financial institution having one of the two highest rating categories published by Standard & Poor's or Moody's, and mutual or trust fund institutions registered with the Securities and Exchange Commission (provided the underlying investments of these funds meet certain restrictions). The Organization's cash deposits and money market accounts included in cash and cash equivalents and assets whose use is limited on its balance sheets, as of December 31, 2011 and 2010 were entirely covered by federal depository insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the Organization's name.

Concentration of Credit Risk: As required under GASB Statement No. 40, Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than five percent (5%) of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. At December 31, 2011 and 2010, the Organization had no investments requiring concentration of credit risk disclosure.

Assets Whose Use is Limited or Restricted: During fiscal 2001, the Board granted management discretion to utilize the funds designated for capital improvements for other operating purposes. Management has continued to maintain these funds in a separate trust account and treat them as internally designated funds until 2011.

The terms of the Organization's bond issues require certain funds to be maintained on deposit with the trustee. The funds on deposit with the trustee, funds designated by the Board for capital improvements, and donated funds restricted by donor stipulations, as of December 31, 2011 and 2010, were as follows:

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

Notes to Consolidated Financial Statements

Note 2. Cash and Assets Whose Use is Limited or Restricted (Continued)

| | 2011 | 2010 |
|---|----------------------|----------------------|
| Current Assets | | |
| Dedicated Property Tax Revenue, Under Bond Indenture | \$ 3,121,035 | \$ 2,938,198 |
| Total | \$ 3,121,035 | \$ 2,938,198 |
| Non-Current Assets | | |
| Dedicated Property Tax Revenue, and Amounts Under Bond Indenture | \$ 13,278,830 | \$ 7,478,475 |
| By Board, Designated for Capital Improvements | - | 4,145,043 |
| By State Department of Workers' Compensation | 700,000 | 700,000 |
| By Donors | 328,980 | 190,205 |
| Total | \$ 14,307,810 | \$ 12,513,723 |

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, 2011 and 2010, approximately 44% and 45%, respectively, of the Hospital's gross patient service charges were derived from services provided to Medicare and Medicaid program beneficiaries. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

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 Health and Human Services before settlement amounts become final. Revenue derived from the Medicaid program is subject to audit and adjustment and must be accepted by the State of Louisiana, Department of Health and Hospitals before the settlement amount becomes final. The fiscal intermediary has completed its review of estimated Medicare and Medicaid settlements for fiscal years ended through December 31, 2006. Annually, management evaluates the recorded estimated settlements and adjusts these balances based upon the results of the intermediary's audit of filed cost reports and additional information becoming available. Although the fiscal intermediary has not completed its audits of the estimated settlements for the years ended December 31, 2007 through 2011 for Medicare and Medicaid, the Hospital does not anticipate significant adverse adjustments to the recorded settlements for those years.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 3. Third-Party Payor Arrangements (Continued)

The Hospital has also entered into payment agreements with certain commercial insurance carriers and managed care organizations. The basis for payment to the Hospital under these arrangements includes prospectively determined daily rates and discounts from established charges.

Note 4. Net Patient Service Revenue

Net patient service revenue for the years ended December 31, 2011 and 2010, was as follows:

| | 2011 | 2010 |
|--------------------------------------|-----------------------|-----------------------|
| Gross Patient Service Revenue | | |
| Medicare | \$ 202,462,683 | \$ 192,536,734 |
| Medicaid | 76,920,439 | 70,194,653 |
| Medicare HMO | 124,631,972 | 100,570,985 |
| Managed Care/Commercial | 201,951,609 | 191,294,620 |
| Self Pay/Uninsured | 25,769,154 | 21,331,851 |
| Total | 631,735,857 | 575,928,843 |
| | | |
| Contractual Adjustments | (478,181,869) | (427,416,554) |
| Charity Care | (10,668,922) | (9,352,421) |
| Provisions for Bad Debts | (18,154,773) | (16,094,012) |
| Total | \$ 124,730,293 | \$ 123,065,856 |

Note 5. Community Benefits

As a community health care provider, the Hospital's stated mission is "To Improve the Quality of Life in our Community". As such, total revenue includes that revenue generated from direct patient care, rentals from various medical office buildings, and sundry revenue related to the operation of the Hospital and its member organizations.

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. As shown in Note 4, charity care provided during the years ended December 31, 2011 and 2010, measured at established rates, totaled \$10,668,992 and \$9,352,421, respectively.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 5. Community Benefits (Continued)

The Hospital received additional funding totaling \$357,264 and \$1,489,344, for 2011 and 2010, respectively, in disproportionate share payments related to high Medicaid utilization and uncompensated care costs which is included as a component of net patient service revenue. Additionally, in 2011, the Hospital entered into a series of agreements related to funding healthcare for low income populations which are detailed in Note 12.

The Hospital also sponsors or participates in numerous activities to benefit the community. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Annually, the Hospital sponsors several health fairs and programs regarding such issues as diabetes, breast cancer, smoking cessation, nutrition, exercise, cardiology, women's health, parenting skills, development topics, etc., to provide the community access to health-related information. Also, the Hospital provides health screenings at no cost or a reduced cost to the community. These include prostate cancer, cholesterol, colorectal, skin cancer, glucose, and thyroid screenings.

The Hospital encourages its employees to volunteer for charitable organizations and to participate in fundraising activities and, in some cases, pays employees to perform public services such as health screenings.

Note 6. Leases

Operating and Capital Lease Commitments

The Hospital leases medical equipment under lease agreements accounted for as capital lease obligations in accordance with FASB Accounting Standards Codification Leases Topic. These capital lease obligations expire at various dates through 2012. The capital asset balances on the consolidated balance sheets include equipment under capital lease obligations of \$6,030,007 and \$9,005,119 less accumulated amortization of \$5,447,633 and \$7,621,208, at December 31, 2011 and 2010, respectively.

The future minimum lease payments at December 31, 2011, for noncancelable leases are as follows:

| | Operating Leases | Capital Leases |
|--|---------------------|-------------------|
| 2012 | \$ 1,007,905 | \$ 250,289 |
| 2013 | 494,139 | - |
| 2014 | 416,981 | - |
| 2015 | 43,434 | - |
| Total | \$ 1,962,458 | 250,289 |
| Amounts Representing Imputed Interest (Interest Rates Range from 4.25% to 4.50%) | | <u>1,762</u> |
| Present Value of Capital Lease Obligations | | <u>\$ 248,527</u> |

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 6. Leases (Continued)

The Hospital also leases medical and administrative equipment under operating leases with terms that vary from month-to-month to five years. Total rental expense included in other direct expenses on the consolidated statements of revenues, expenses, and changes in net assets was \$2,319,676 and \$2,308,942, for the years ended December 31, 2011 and 2010, respectively.

Rental Income

The Hospital leases space to physicians through a combination of cancelable and noncancelable lease agreements accounted for as operating leases. Rental income earned under these agreements was \$1,817,330 and \$1,704,168, for the years ended December 31, 2011 and 2010, respectively.

The future minimum lease payments to be received on noncancelable leases are summarized as follows:

| For the Year Ended December 31, | Amount |
|--|----------------------------|
| 2012 | \$ 1,632,916 |
| 2013 | 1,033,043 |
| 2014 | 919,558 |
| 2015 | 772,114 |
| 2016 | 304,502 |
| Total | <u>\$ 4,662,133</u> |

Note 7. Long-Term Debt

The details and balances of long-term debt at December 31, 2011 and 2010, are presented in the following table:

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt (Continued)

| | 2011 | 2010 |
|---|-----------------------------|-----------------------------|
| General Obligation Bonds, Series 2004A, Described in Detail Below (\$385,000 Due in 2012) | \$ 6,035,000 | \$ 6,400,000 |
| General Obligation Bonds, Series 2004B, Described in Detail Below (\$565,000 Due in 2012) | 9,910,000 | 10,450,000 |
| General Obligation Bonds, Series 2004C, Described in Detail Below (\$50,000 Due in 2012) | 940,000 | 985,000 |
| Hospital Indebtedness, Series 2005, Described in Detail Below (\$1,070,000 Due in 2012) | 4,570,000 | 5,590,000 |
| Community Disaster Loan, Including Accrued Interest Described in Detail Below (Due in 2016) | 27,285,844 | 26,610,977 |
| General Obligation Bonds, Series 2009, Described in Detail Below (\$875,000 Due in 2012) | 15,750,000 | 16,625,000 |
| General Obligation Bonds, Series 2011, Described in Detail Below (First Principal Payment Due in 2013) | 9,800,000 | - |
| | <u>74,290,844</u> | <u>66,660,977</u> |
| Less: Amounts Due Within One Year | 2,945,000 | 2,845,000 |
| Total | <u>\$ 71,345,844</u> | <u>\$ 63,815,977</u> |

The following table, for the years ended December 31, 2011 and 2010, summarizes the changes in long-term debt:

| | | |
|--|-----------------------------|-----------------------------|
| Balance of Long-Term Debt at January 1, | \$ 66,660,977 | \$ 68,751,111 |
| Less: Repayment of Bonds and Notes Payable | (2,845,000) | (2,765,000) |
| Plus: Issuance of General Obligation Bonds | 9,800,000 | - |
| Plus: Long-Term Accrued Interest on CDL Loan | 674,867 | 674,866 |
| Balance of Long-Term Debt at December 31, | <u>\$ 74,290,844</u> | <u>\$ 66,660,977</u> |

General Obligation Bonds

Series 2004

In October 2003, the voters of St. Tammany Parish approved a referendum authorizing the Hospital to issue up to \$22.45 million of general obligation bonds in 2004. The Hospital issued three series of general obligation bonds in 2004 to refinance the balances of 1994, 1996, and 1999 revenue bonds.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt (Continued)

On March 31, 2004, the Hospital issued \$8 million in General Obligation Bonds with interest rates ranging from 2% to 5% to advance refund \$9.24 million of outstanding Hospital Revenue Bonds, Series 1994. The net proceeds of \$7.9 million (after payment of underwriting fees, insurance, and other issuance costs) plus an additional \$1.99 million of existing sinking fund and debt service reserve monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the portion of the 1994 bonds until the bonds were advance refunded on October 4, 2004.

On July 29, 2004, the Hospital issued \$13.115 million in General Obligation Bonds with interest rates ranging from 4.125% to 6% to advance refund the remaining \$14.16 million in outstanding 1994 Revenue Bonds and all of the \$691,885 outstanding Hospital Revenue Bonds, Series 1996. The net proceeds of \$13 million (after payment of underwriting fees, insurance, and other issuance costs) plus an additional \$2.5 million of existing sinking fund and debt service reserve monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1994 bonds until the amounts were advance funded on October 4, 2004. The entire amount of the Series 1996 Bonds were refunded on July 29, 2004.

On July 29, 2004, the Hospital issued \$1.205 million in General Obligation Bonds with interest rates ranging from 5.8% to 8% to advance refund \$2.2 million of outstanding 1999 Revenue Bonds.

The net proceeds of \$1.2 million (after payment of underwriting fees, insurance, and other issuance costs) plus an additional \$1 million of existing debt service reserve monies were deposited in an irrevocable trust with an escrow agent to provide for the advance refunding on July 29, 2004.

Series 2009

On June 1, 2009, the Hospital issued \$17.5 million in General Obligation Bonds with interest rates ranging from 4% to 6% for the purpose of constructing, acquiring, extending and improving a full service Cancer Center and related health care facilities. The Bonds were authorized by the voters of the District in a special election held on November 17, 2007.

Series 2011 and 2012

On April 30, 2011, the voters of St. Tammany Parish approved a referendum authorizing the Hospital to issue up to \$25 million of new general obligation bonds for the purposes of constructing, improving and expanding its facilities, including new emergency room services, cardiology services, and the conversion of existing semi-private rooms into private rooms.

The Hospital issued the first of this series of general obligation bonds on August 4, 2011, in the amount of \$9.8 million. Scheduled interest rates over the term of the 2011 bonds range from 2% to 4.75%.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt (Continued)

General Obligation Bonds (Continued)

Subsequent to the date of these financial statements, the Organization issued Series 2012 general obligation bonds in the amount of \$15.2 million on March 1, 2012. Scheduled interest rates over the term of the 2012 bonds range from 2% to 3.125%.

All of the District's general obligation bonds are secured by a pledge of dedicated property tax millages described in Note 1.

Interest on the general obligation bonds is payable semi-annually on March 1 and September 1 each year. The Series 2004 bonds mature in annual installments on March 1 each year until 2024 and can be called for early redemption after March 1, 2014. The Series 2009 bonds mature in annual installments on March 1 each year until 2029 and can be called for early redemption after March 1, 2019. The Series 2011 Bonds also mature in annual installments due on March 1 each year from 2013 until 2036, and can be called for redemption in full or in part on or after March 1, 2021. The subsequently issued Series 2012 bonds mature in annual installments due on March 1 each year from 2015 until 2032, and can be called for redemption in full or in part after on or after March 1, 2022.

Hospital Indebtedness Obligations

On July 27, 2005, the Hospital issued \$10 million of Hospital Indebtedness Obligations to finance the cost of constructing, acquiring, and/or improving hospital facilities and equipment for the Hospital. The Obligations bear rates ranging from 3.45% to 4.1% and are payable in annual installments through July 1, 2015. The Obligations are not callable for redemption prior to their stated maturity dates. The Obligations are secured by a pledge of the net income, revenues and receipts of the Hospital.

Community Disaster Loans

During 2006, the Hospital received a total of \$23,503,926 in the form of promissory notes issued under the Community Disaster Loan Act of 2005. The proceeds of which were used to fund essential operations, primarily payroll and labor related costs subsequent to Hurricane Katrina. The loans bear interest rates ranging from 2.8% to 3.12%, and both the principal and interest amounts were due in five years from the date of issuance at varying dates in fiscal year 2011. On February 10, 2011, the Hospital received an extension to repay the entire outstanding balance, inclusive of accrued interest, in fiscal year 2016.

The notes are payable from and secured by a pledge of the Hospital's revenues for each fiscal year while any of the notes are outstanding, after provision has been made for the payments required in connection with any outstanding bond indebtedness of the Hospital. Interest expense related to these loans was \$674,866 and \$674,867, for the years ended December 31, 2011 and 2010, respectively. There were no repayments of principal or interest during 2011 or 2010.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt (Continued)

Combined Existing Debt Service Commitments

Principal and interest payments due on general obligation bonds and notes payable outstanding as of December 31, 2011 are as follows:

| Years Ended December 31, | Principal | Interest |
|-----------------------------|----------------------|----------------------|
| 2012 | \$ 2,945,000 | \$ 1,941,670 |
| 2013 | 3,245,000 | 1,790,166 |
| 2014 | 3,365,000 | 1,667,864 |
| 2015 | 3,485,000 | 1,542,572 |
| 2016 | 29,615,844 | 1,409,070 |
| 2017-2021 | 12,825,000 | 5,558,626 |
| 2022-2026 | 10,665,000 | 2,768,040 |
| 2027-2031 | 5,040,000 | 1,149,147 |
| Thereafter | 3,105,000 | 373,813 |
| Total | \$ 74,290,844 | \$ 18,200,968 |

The table below illustrates the combined debt service requirements in the table above with the addition the principal and interest maturities of the subsequently issued Series 2012 General Obligation Bonds:

| Years Ended December 31 | Principal | Interest |
|----------------------------|----------------------|----------------------|
| 2012 | \$ 2,945,000 | \$ 2,146,965 |
| 2013 | 3,245,000 | 2,200,756 |
| 2014 | 3,365,000 | 2,078,458 |
| 2015 | 4,075,000 | 1,947,266 |
| 2016 | 30,235,844 | 1,801,664 |
| 2017-2021 | 16,300,000 | 7,322,244 |
| 2022-2026 | 14,885,000 | 4,045,760 |
| 2027-2031 | 10,180,000 | 1,727,267 |
| Thereafter | 4,260,000 | 391,858 |
| Total | \$ 89,490,844 | \$ 23,662,238 |

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

Notes to Consolidated Financial Statements

Note 8. Employee Benefits

The Hospital and its member organizations maintained a qualified noncontributory defined contribution pension plan which provided pension benefits for eligible employees through March, 2002. Beginning in April, 2002, the Hospital began a combination deferred compensation and contributory employee savings plan for full-time employees. Each employee's interest in the existing plan is fully vested and was transferred over to the new plan.

The new pension plan provides a discretionary employer match of participant elective deferrals up to 4% beginning January 1, 2006, rather than contributions based on salaries. Plan participants, who attained age 50 as of September 26, 2005, continue to receive the employer match up to 8% of their elective deferral. Employees are eligible to participate at their date of hire. Participants are immediately vested in their contributions plus actual earnings thereon.

Vesting in the Hospital's contribution is based on years of service. The following vesting schedule is in effect:

| Years of Vesting Service | Percent Vested |
|-------------------------------------|---------------------------|
| 1 | 33% |
| 2 | 67% |
| 3 | 100% |

The total payroll for the years ended December 31, 2011 and 2010 was \$52,072,353 and \$51,961,272, respectively. During the years ended December 31, 2011 and 2010, the Hospital and member organizations made required contributions to the plan of \$1,282,831 and \$1,381,931, respectively.

Note 9. Risk Management and Regulatory Matters

Risk Management

The Hospital participates in the Louisiana Patients' Compensation Trust Fund (PCF) for insurance coverage on professional liability (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 PCF provides coverage on a claims occurrence basis for claims over \$100,000 and up to the \$500,000 statutory limitation. The Hospital is self-insured with respect to the first \$100,000 of each claim.

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

Notes to Consolidated Financial Statements

Note 9. Risk Management and Regulatory Matters

The Hospital also participates in the Louisiana Hospital Association Trust Fund (LHA Trust Fund), which provides general liability coverage up to \$1,000,000 per claim. The LHA Trust Fund also insures excess general liability claims in excess of \$1,000,000 but limited to \$9,500,000 per claim. Effective November 1, 2007, the Hospital's insurance coverage under the LHA Trust Fund is subject to a deductible of \$100,000 on a claims made basis.

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. As of December 31, 2011, the Hospital has recorded professional and general liability accruals, totaling \$993,172 as an estimated provision for both asserted claims and for claims incurred but not reported. This provision is included as a component of accrued interest and other expenses on its consolidated balance sheet. Additional claims may be asserted against the Hospital arising from services provided to patients through December 31, 2011, exceeding these coverage limits; however, management believes it has adequately provided for them.

Risk Management (Continued)

The Hospital is self-insured for workers' compensation up to \$300,000 per claim, and employee health up to \$140,000 per claim. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration claims incurred but not reported, recently settled claims, frequency of claims, and other economic and social factors. The Hospital carries commercial insurance which provides coverage for workers' compensation and employee health claims in excess of the self-insured limits.

As of December 31, 2011, the Hospital has recorded workers' compensation and employee health accruals, totaling \$628,421 and \$300,000, respectively, as an estimated provision for both asserted claims and for claims incurred but not reported. This provision is included as a component of accrued interest and other expenses on its consolidated balance sheet.

Changes in the Hospital's aggregate claims liability for professional, general liability, workers' compensation and employee health, which are included in accrued interest and other expenses on the accompanying balance sheets, were as follows for the years ended December 31, 2011 and 2010:

| Years Ended December 31, | Beginning of Year Liability | Current Year Claims and Changes in Estimates | Claim Payments | Balance at Year End |
|-------------------------------------|--|---|---------------------------|--------------------------------|
| 2011 | \$ 1,630,203 | \$ 6,124,672 | \$ 5,833,282 | \$ 1,921,593 |
| 2010 | \$ 1,942,800 | \$ 4,814,463 | \$ 5,127,060 | \$ 1,630,203 |

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 9. Risk Management and Regulatory Matters (Continued)

Regulatory Matters

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, and reimbursement for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Organization is in compliance with fraud and abuse, as well as other applicable government, laws and regulations. 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.

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement a so-called Recovery Audit Contractor (RAC) program on a permanent and nationwide basis no later than 2010. The program uses RACs to search for potentially improper Medicare 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 identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare reimbursement in an amount estimated to equal the overpayment.

A five-state pilot program concluded in March 2008, with a nationwide rollout of the RAC effort done in phases beginning in 2009. The experiences during the pilot found far more overpayments than underpayments.

Similarly, the Centers for Medicare & Medicaid Services (CMS) created new entities entitled Audit Medicaid Integrity Contractors (MIC) in order to continue its efforts to ensure the highest integrity of its healthcare programs. The goal of the provider audits is to identify overpayments and to ultimately decrease the payment of inappropriate Medicaid claims. The role of an Audit MIC is to review claims submitted by all types of Medicaid providers, including all settings of care and types of services, with most audits taking place at staff headquarters and on occasion on-site at a provider's place of business.

The Organization was the subject of ongoing RAC and MIC audits during 2011 and 2010, and deducts from revenue amounts assessed under the RAC audits at the time a notice is received until such time that estimates of net amounts due can be reasonably estimated. Net assessments against the Organization have not been significant through December 31, 2011.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 10. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are local residents and are often insured under third party payor agreements. The mix of receivables from patients and third party payors net of contractual allowances and discounts at December 31, 2011 and 2010, was as follows:

| | 2011 | 2010 |
|-------------------------------|-------------|-------------|
| Medicare | 13% | 13% |
| Medicaid | 6% | 5% |
| Medicare HMO | 12% | 8% |
| Managed Care and Other Payors | 28% | 32% |
| Patients | 41% | 42% |
| Total | 100% | 100% |

Note 11. Changes in Capital Assets

Capital asset activity for the fiscal year ended December 31, 2011, was as follows:

| | Balance December 31, 2010 | Additions | Deletions | Balance December 31, 2011 |
|---|---------------------------------|----------------------|------------------------|---------------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 5,919,209 | \$ 24,222 | \$ - | \$ 5,943,431 |
| Construction in Process | 15,836,537 | 4,992,239 | (19,249,257) | 1,579,519 |
| Total Capital Assets Not Being Depreciated | 21,755,746 | 5,016,461 | (19,249,257) | 7,522,950 |
| Capital Assets Being Depreciated | | | | |
| Land Improvements | 2,087,827 | 2,359 | - | 2,090,186 |
| Buildings | 74,737,225 | 18,808,205 | (2,702,530) | 90,842,900 |
| Equipment | 68,093,239 | 10,058,435 | (1,947,207) | 76,204,467 |
| Total Capital Assets Being Depreciated | 144,918,291 | 28,868,999 | (4,649,737) | 169,137,553 |
| Less Accumulated Depreciation for: | | | | |
| Land Improvements | 1,037,585 | 67,622 | - | 1,105,207 |
| Buildings | 49,090,422 | 3,179,287 | (1,655,093) | 50,614,616 |
| Equipment | 48,533,752 | 6,447,023 | (1,746,924) | 53,233,851 |
| Total Accumulated Depreciation | 98,661,759 | 9,693,932 | (3,402,017) | 104,953,674 |
| Capital Assets Being Depreciated, Net | 46,256,532 | 19,175,067 | (1,247,720) | 64,183,879 |
| Total | \$ 68,012,278 | \$ 24,191,528 | \$ (20,496,977) | \$ 71,706,829 |

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 11. Changes in Capital Assets (Continued)

Capital asset activity for the fiscal year ended December 31, 2010, was as follows:

| | Balance December 31, 2009 | Additions | Deletions | Balance December 31, 2010 |
|---|---------------------------------|----------------------|-----------------------|---------------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 5,498,848 | \$ 420,561 | \$ - | \$ 5,919,209 |
| Construction in Process | 8,603,868 | 14,936,541 | (7,703,872) | 15,836,537 |
| Total Capital Assets Not Being Depreciated | 14,102,516 | 15,357,102 | (7,703,872) | 21,755,746 |
| Capital Assets Being Depreciated | | | | |
| Land Improvements | 1,100,261 | 987,566 | - | 2,087,827 |
| Buildings | 71,167,103 | 3,608,948 | (38,826) | 74,737,225 |
| Equipment | 59,058,358 | 9,224,074 | (189,193) | 68,093,239 |
| Total Capital Assets Being Depreciated | 131,325,722 | 13,820,588 | (228,019) | 144,918,291 |
| Less Accumulated Depreciation for: | | | | |
| Land Improvements | 992,378 | 45,207 | - | 1,037,585 |
| Buildings | 46,513,564 | 2,578,381 | (1,523) | 49,090,422 |
| Equipment | 43,739,553 | 4,979,289 | (185,090) | 48,533,752 |
| Total Accumulated Depreciation | 91,245,495 | 7,602,877 | (186,613) | 98,661,759 |
| Capital Assets Being Depreciated, Net | 40,080,227 | 6,217,711 | (41,406) | 46,256,532 |
| Total | \$ 54,182,743 | \$ 21,574,813 | \$ (7,745,278) | \$ 68,012,278 |

Construction in process at December 31, 2011, relates principally to the early stages of construction of a \$25 million project to expand the emergency room department and make significant other improvements. On April 29, 2011, local voters passed a referendum to allow the Organization to borrow \$25 million to finance the construction and related costs, as detailed in Note 7. The bond issue is to be serviced with revenues from the existing dedicated 7-mill property tax.

Construction in process at December 31, 2010 involved the state-of-the-art regional Cancer Center, which was dedicated and opened in January 2011. The Center now operates as a component of the Hospital, to provide comprehensive cancer services in a centralized location, allowing for improved collaboration, and a multi-disciplinary approach to cancer treatment.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

Note 12. Louisiana Medicaid Collaboration and Cooperative Endeavor Agreements

The Organization routinely provides a substantial amount of uncompensated care to patients in its service area. For the year ended December 31, 2011, management estimated that the total costs associated with providing uncompensated care were in excess of \$11 million. To improve or expand allowable healthcare services for Medicaid beneficiaries or low-income, uninsured patients, during 2011, the Organization entered into 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:

West Jefferson Medical Center Cooperative Endeavor Agreement. On November 29, 2011, the Organization entered into a cooperative endeavor agreement West Jefferson Medical Center (WJMC) (a Louisiana hospital service district) and eleven other participating Louisiana hospital services districts (HSDs). The Centers for Medicare and Medicaid Services (CMS) has previously 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.

Under this agreement, WJMC 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 Slidell Memorial Hospital, 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 in a manner defined in the agreement. Funding for each participating hospital service district is based upon a formula utilizing each districts' reported Medicaid patient days. The term of this agreement is one year with automatic renewals for additional terms of one year unless earlier terminated.

Low Income and Needy Care Collaboration Agreement. Under the terms of this agreement with a private health care provider dated March 31, 2011, the Organization agreed to use public funds for purposes of funding Medicaid supplemental payments authorized under Medicaid State Plan Amendments LA 09-5S and LA 09-56. In exchange the private healthcare provider agrees to work cooperatively with Slidell Memorial Hospital to improve access to health care for low income and needy persons. The agreement may be terminated by either party with thirty days written notice.

Physicians' UPL Agreement with the Louisiana Department of Health and Hospitals (DHH). 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. Slidell Memorial 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.

ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL

Notes to Consolidated Financial Statements

**Note 12. Louisiana Medicaid Collaboration and Cooperative Endeavor Agreements
(Continued)**

Physicians' UPL Agreement with the Louisiana Department of Health and Hospitals (DHH) (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, 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.

Summary. During 2011, in accordance with the funding provisions of the above agreements, the Organization recognized \$2,443,604 as an offset to Medicaid contractual adjustments resulting in a corresponding increase in net patient service revenue. Payments to DHH in conjunction with the Low Income and Needy Care Collaboration Agreement totaled \$1,872,000 which is being amortized monthly over the effective term of the agreement. A total of \$1,083,829 was recognized as other direct expenses during 2011, with the remainder of \$788,171 included on the Organization's consolidated balance sheet as of December 31, 2011 in prepaid expenses. The Organization also recognized \$317,935 as other direct expenses, funds paid or payable to DHH under the terms of the Physicians' UPL agreement during 2011 as income was recognized from the Medicaid Supplemental Payments.

Note 13. Subsequent Events

On March 1, 2012 the Organization issued General Obligations in the amount of \$15,200,000 on March 1, 2012. The Series 2012 bonds represent the Organization second authorized bond issue involving the \$25,000,000 expansion and renovation project begun in 2011. Repayment terms and maturities associated with the Series 2012 are included are included in Note 7.

SUPPLEMENTARY INFORMATION

**ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2
d/b/a SLIDELL MEMORIAL HOSPITAL**

**Schedule of Compensation Paid to Board of Commissioners
For the Year Ended December 31, 2011**

| Commissioner | Compensation |
|---|---------------------|
| Dr. Kumar Amaraneni, MD | \$ 225 |
| Mr. Larry P. Englande Chairman | 2,100 |
| Mr. Dan Ferrari | 2,325 |
| Dr. Thomas Hall, MD | 1,500 |
| Dr. Walter J. Lane Secretary/Treasurer | 1,950 |
| Mr. David G. Mannella | 2,625 |
| Mr. Daniel A. McGovern, IV Vice-Chairman | 2,625 |
| Dr. Janine S. Parker, MD | 1,650 |
| Dr. Clinton Sharp, MD | 1,650 |
| Total | \$ 16,650 |



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**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 the Board of Commissioners
St. Tammany Parish Hospital Service District No. 2
Slidell, Louisiana

We have audited the consolidated basic financial statements of St. Tammany Parish Hospital Service District No. 2 (d/b/a Slidell Memorial Hospital) (the Organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated April 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we identified the deficiency in internal control over financial reporting, included below that we consider to be a significant deficiency in internal control over financial reporting:

Condition 2011-01: Access to the account balance write-off function in the patient accounts receivable subsidiary is not restricted to a limited group of authorized individuals in the business office.

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Context: It was noted through inquiries during the audit that access to the software component used to write-off accounts receivable was not limited as described above. It was later determined that registrars had access to this component of the software and could implement an account write-off. We believe that the condition is somewhat mitigated by the need for specific code entry and the inherent knowledge of the software involved, but potential for misuse does exist.

Effect: The condition results in a weakness in controls involving cash receipts and accounts receivable processing.

Cause: The cause appears to be an implementation issue with the new patient accounting software installed.

Recommendation: We recommend that access to write-off or adjust balances in the patient accounting subsidiary be limited to designated business office employees who do not have a role in handling cash, or other incompatible functions that potentially dilute segregation of duties.

Management Response and Corrective Action: Management was made aware of the control weakness during the course of the audit and assisted in the external auditors' review. Management agrees that certain limiting factors, including access codes and general user knowledge, would limit users' ability to successfully write-off account balances. Additionally, management reviewed write-off data for the year by user and has found no inappropriate adjustments during the audit period. The Information Technology department will remove registrars access to write-off balances and will limit this access to only those who need the ability.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the St. Tammany Parish Hospital Service District No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the Organization, the Louisiana Legislative Auditor, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



A Professional Accounting Corporation

April 19, 2012