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ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2

d/b/a SLIDELL MEMORIAL HOSPITAL

Consolidated Financial Statements
December 31, 2010 and 2009

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 8/3/11

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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, 2010. 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. A fourth generation hospitalist program was started in 2009 with an annual subsidy which has decreased from $1.6 million to $1.2 million in 2010. 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 hospitalist program also alleviates the emergency department call burden on primary care physicians. The SMH Physician Network added four employed physicians in 2010.

The Hospital completed construction of the state of the art comprehensive cancer center at the end of 2010 with the opening in mid-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.

As a result of the focus on quality and patient safety, the Hospital received a 2010 Platinum Award for core measure and outcome indicators from the Louisiana Quality Foundation. The LQF is the State of Louisiana's Quality Improvement Organization (QIO). Platinum is the highest performance level which can be achieved under the LQF program. The LQF changed its name in 2011 to EQ Health Solutions. During the first quarter of 2011 SMH received the EQ Health Solutions Capstone Award which is again the highest level of achievement in the area of core measures and outcome indicators.

Not unlike many states, Louisiana faced significant budget challenges in 2010. As a result of three rate reductions, SMH incurred a $2.2 million payment cut in the year 2010 with the fully mature rate reductions expected in 2011 which will top $3.1 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. Management is actively engaged with the Louisiana Hospital Association and DHH to find ways to restore a portion, if not all of the cuts by funding programs that can draw federal match.

Financial Highlights

Net patient service revenue increased .74%, from prior year. Favorable volume growth would have generated a greater increase in net patient revenue if not for: (1) a significant shift in payer mix resulting in managed care patients declining from 37% in 2009 to 33% of 2010 patient volumes, and (2) the Medicaid rate reductions described in the Executive Summary. The 2010 impact of the payer mix shift and Medicaid rate reductions were partially offset by operating efficiency improvements and managed care rate improvements. In an effort to protect jobs and maintain services, the organization did not institute a layoff or service elimination strategy.

Operating expenses before depreciation and amortization increased 1.8% reflecting volume growth in most of the hospital. Management operates the facility on a daily productivity management system to flex variable labor by shift. During 2009, SMH conducted an RFP for the facility Group Purchasing Organization relationship to ensure the best price per unit is being achieved. Late in 2009, the organization decided to move to Broadlane in the first quarter of 2010. The savings from this change was estimated to be at least $600,000 annually. The 2010 supply cost were higher than expected on a per adjusted patient day basis. However, several very high cost service lines had significant growth:

- Acute admissions up 1.5%
- Chemotherapy patients up 34.5%
- Operating Room Hours up 10.3%
- Heart surgeries up 21.1%

According to the Bureau of Labor Statistics, 2010 was a high inflationary period for hospital commodities. Management is continuously monitoring supply cost per unit and evaluating the GPO relationship.

The Hospital's total net assets increased by $1.5 million from the prior year. The assets of the Hospital exceeded liabilities at the close of the 2010 fiscal year by $67.8 million. Of this amount, $30.2 million (unrestricted net assets) may be used to meet ongoing obligations to the Hospital's patients and creditors, and $30.0 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.

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 sheet and the consolidated statement 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.

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 2010	Fiscal Year 2009	Fiscal Year 2008
Current and other assets	$ 82,603	$ 96,643	$ 84,629
Capital assets, net	68,012	54,183	51,604
Total assets	$ 150,615	$ 150,826	$ 136,233
Long-term debt outstanding	$ 64,064	$ 67,477	$ 53,695
Other liabilities	18,746	17,043	17,745
Total liabilities	$ 82,810	$ 84,520	$ 71,440
Invested in capital assets, net of related debt	$ 30,019	$ 23,020	$ 19,544
Restricted	7,569	7,328	5,920
Unrestricted	30,217	35,958	39,329
Total net assets	$ 67,805	$ 66,306	$ 64,793

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.

December 31, 2009
From December 31, 2008 to 2009, current and other assets increased 14% primarily associated with receipt of bond proceeds designated for the comprehensive cancer center construction. Capital assets increased 5.0% reflecting the investment in new capital assets less depreciation on existing capital assets. Long-term debt increased 26% reflecting the bonds issued for construction of the comprehensive cancer center. Other liabilities decreased 4%.

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, 2010, 2009 and 2008:

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

	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2008
Net patient service revenue	$ 123,066	$ 122,160	$ 125,163
Other operating revenue excluding interest income	2,854	2,906	3,696
Total operating revenues	125,920	125,066	128,859
Operating expenses before depreciation/amortization	118,179	116,082	120,298
Earnings before interest depreciation and amortization and non-operating revenues (expenses) (EBIDA)	7,741	8,984	8,561
Depreciation and amortization expense	7,723	8,666	8,803
Operating net income (loss)	18	318	(242)
Non-operating revenues (expenses):			
Interest income	352	391	1,183
Interest expense	(1,919)	(2,179)	(2,173)
Property tax revenue	3,551	2,905	3,300
Insurance proceeds and other	(503)	78	70
Revenues in excess of expenses	1,499	1,513	2,138
Total net assets - beginning of year	66,306	64,793	62,655
Total net assets - end of year	$ 67,805	$ 66,306	$ 64,793

The following table represents the relative percentage of gross charges billed for patient services by payer for the fiscal years ended December 31, 2010, 2009 and 2008:

	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2008
Medicare & Medicare HMO	51%	47%	45%
Medicaid	12%	11%	12%
Managed care and commerical insurance	33%	37%	38%
Uninsured patients	4%	5%	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 2010, 2009 and 2008:

- During 2010, the Hospital had 7,289 acute inpatient admissions. This is an increase of 1.5% from fiscal year 2009. During 2009, the Hospital had 7,180 acute inpatient admissions. This is a decrease of 6.3% from fiscal year 2008.
- Emergency registrations were 28,007 and 28,595 in 2010 and 2009, respectively. This is a decrease of 2.1% in 2010 compared to fiscal year 2009 and an increase of 7.9% in 2009 compared to fiscal year 2008.
- During 2010, net patient service revenue increased $0.9 million, or 0.7%, from 2009. The Medicaid cuts of $2.3 million and the decline of insurance patient mix from 37% to 33% are the primary reasons net patient service revenue did not grow at a faster rate associated with greater volumes in surgery, cath lab, and other profitable service lines.
- During 2010 salaries, wages and benefits increased 2.1% from prior year reflecting increased staff required to handle volume increases. During 2009 salaries, wages and benefits decreased 4.5% from 2008 on declining volumes and organizational restructuring.
- During 2010, supplies and materials increased approximately 8.2% compared to 2009 and decreased approximately 4.8% in 2009 compared to 2008. Although the increase and decrease periods are consistent with volume direction, the increases in supply expense during 2010 exceeds volume driven expenses and management continues to study whether the change in group purchasing organizations was a good decision in 2010.
- Other Direct expenses decreased 4.1% million from 2009 to 2010.
- Professional Fees decreased 2.0% from 2009 to 2010.
- Purchased Services decreased 8.2% from 2009 to 2010.

Performance Against Budget

	FY 2010 Budget	FY 2010 Actual	Favorable (Unfavorable) Variance
Revenues:			
Net patient service revenue	$ 122,440	$ 123,066	$ 626
Other operating revenue	2,282	2,854	572
Total operating revenues	124,722	125,920	1,198
Operating expenses:			
Salaries, wages and benefits	60,376	61,163	(787)
Supplies and other	39,668	42,060	(2,392)
Professional and contractual services	14,345	14,956	(611)
Total operating expenses before depreciation/ amortization and non-operating revenues (expenses)	114,389	118,179	(3,790)
EBIDA	10,333	7,741	(2,592)
Interest income	400	352	(48)
Interest expense	(1,886)	(1,919)	(33)
Depreciation and amortization	(9,944)	(7,723)	2,221
Non-operating revenue, net	2,251	3,048	797
Excess of revenues over expenses	1,154	1,499	345
Increase in net assets	$ 1,154	$ 1,499	$ 345

Capital Assets

	Fiscal Year 2010	Fiscal Year 2009	Dollar Change	Percent Change
Land and land improvements	$ 8,007	$ 6,599	$ 1,408	21%
Building and leasehold improvements	74,737	71,167	3,570	5%
Equipment	68,093	59,058	9,035	15%
Construction in progress	15,837	8,604	7,233	84%
Subtotal	166,674	145,428	21,246	15%
Less: *accumulated depreciation*	(98,662)	(91,245)	(7,417)	8%
Net capital assets	$ 68,012	$ 54,183	$ 13,829	26%

Economic Factors and Next Year's Budget

The Hospital's Board and Management considered many factors when setting the fiscal year 2011 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 2 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 exchanged blows with regard to physician courtship, without either hospital incurring significant aggregate volume impact. In addition, the broad economy is of significant importance in setting the 2011 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 and the year 2011 will reflect the full impact of the plant closure.

- Medicaid payment rate reductions of the last two years will become fully mature in 2011 and the State of Louisiana faces a large deficit coming up in July 2011 for the next fiscal year. The fully mature Medicaid and uncompensated care cuts total $3.1 million per year for SMH.

- 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.

- Inflation is expected to be significant in 2011 as a large portion of medical supplies contain petroleum based materials.

- 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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CERTIFIED PUBLIC ACCOUNTANTS

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, 2010 and 2009, 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 2010 and 2009 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Slidell Memorial Hospital as of December 31, 2010 and 2009, 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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RSM McGladrey Network

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2011, 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 inquires 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.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

May 9, 2011

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

Consolidated Balance Sheets
December 31, 2010 and 2009

	2010	2009
Assets		
Current Assets		
Cash and Cash Equivalents	$ 44,682,277	$ 47,843,289
Patient Accounts Receivables, Net of Allowances for Uncollectible Accounts of $6,423,477 and $6,056,808 in 2010 and 2009, Respectively	16,386,735	15,540,795
Assets Whose Use is Limited, Required for Current Liabilities	2,938,198	2,928,770
Inventories	2,961,302	3,094,671
Prepaid Expenses and Other Receivables	2,906,200	3,483,942
Total Current Assets	69,874,712	72,891,467
Assets Whose Use is Limited or Restricted		
By Board or Under Agreements for Capital Improvements and Debt Service	11,623,518	22,593,968
By Donors	190,205	122,531
By State Department of Workers' Compensation	700,000	700,000
Total Assets Whose Use is Limited or Restricted	12,513,723	23,416,499
Capital Assets		
Land and Improvements	8,007,036	6,598,909
Buildings and Improvements	74,737,225	71,167,103
Equipment	68,093,239	59,058,358
Construction in Progress	15,836,537	8,603,868
	166,674,037	145,428,238
Less Accumulated Depreciation	(98,661,759)	(91,245,495)
Capital Assets, Net	68,012,278	54,182,743
Other Assets, Net	214,391	335,563
Total Assets	$ 150,615,104	$ 150,826,272

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

	2010	2009
Liabilities and Net Assets		
Current Liabilities		
Trade Accounts Payable	**$ 6,043,216**	$ 3,414,509
Salaries, Wages and Benefits Payable	**1,428,214**	986,733
Accrued Paid Time Off Payable	**2,358,156**	2,653,781
Accrued Interest and Other Expenses	**4,828,679**	5,595,642
Amounts Due Within One Year on Capital Lease Obligations	**1,242,334**	1,627,400
Amounts Due Within One Year on Bonds Payable	**1,825,000**	1,785,000
Amounts Due Within One Year on Hospital Indebtedness and Notes Payable	**1,020,000**	980,000
Total Current Liabilities	**18,745,599**	17,043,065
Capital Lease Obligations, Less Amounts Due Within One Year	**248,528**	1,490,861
Bonds Payable, Less Amounts Due Within One Year	**32,635,000**	34,460,000
Hospital Indebtedness, Less Amounts Due Within One Year	**4,570,000**	5,590,000
Community Disaster Loan, Including Accrued Interest	**26,610,977**	25,936,111
Commitments and Contingencies (Notes 6, 7 and 9)	**-**	-
Total Liabilities	**82,810,104**	84,520,037
Net Assets		
Invested in Capital Assets, Net of Related Debt	**30,019,322**	23,019,883
Restricted for Debt Service and Workers' Compensation	**7,568,767**	7,328,476
Unrestricted	**30,216,911**	35,957,876
Total Net Assets	**67,805,000**	66,306,235
Total Liabilities and Net Assets	**$ 150,615,104**	$ 150,826,272

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, 2010 and 2009

	2010	2009
Revenues		
Net Patient Service Revenue	$ 123,065,856	$ 122,160,019
Other Revenue	2,853,965	2,906,355
Total Revenues	125,919,821	125,066,374
Operating Expenses		
Salaries and Wages	51,961,272	50,208,863
Employee Benefits	9,201,421	9,709,144
Supplies and Materials	28,202,562	26,071,913
Other Direct Expenses	13,857,680	14,454,076
Professional Fees	9,491,520	9,687,877
Purchased Services	5,463,984	5,949,631
Depreciation and Amortization	7,722,684	8,666,472
Total Operating Expenses	125,901,123	124,747,976
Operating Income	18,698	318,398
Non-Operating Revenues (Expenses)		
Interest Income	351,775	391,314
Interest Expense	(1,919,330)	(2,179,332)
Property Tax Revenue	3,551,102	2,905,288
Other	(503,480)	77,355
Total Non-Operating Revenues, Net	1,480,067	1,194,625
Increase in Net Assets	1,498,765	1,513,023
Net Assets, Beginning of Year	66,306,235	64,793,212
Net Assets, End of Year	$ 67,805,000	$ 66,306,235

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, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Cash Received from Patient Services	$ 123,518,457	$ 122,693,533
Cash Paid to or on Behalf of Employees	(61,118,929)	(60,363,910)
Cash Paid for Supplies and Services	(54,427,759)	(57,426,091)
Cash Received from FEMA and Other Federal and State Programs	1,695,524	2,914,273
Net Cash Provided by Operating Activities	9,667,293	7,817,805
Cash Flows from Non-Capital Financing Activities		
Other Non-Operating Revenues (Expenses), Net	(503,480)	77,355
Net Cash (Used in) Provided by Non-Capital Financing Activities	(503,480)	77,355
Cash Flows from Capital and Related Financing Activities		
Purchase of Capital Assets	(21,473,818)	(10,950,540)
Proceeds from Bond Issuance	-	17,500,000
Principal Payments on Long-Term Debt and Capital Lease Obligations	(4,392,399)	(3,796,056)
Dedicated Property Tax Revenue Received	3,326,101	3,198,288
Interest Payments	(1,296,239)	(1,380,935)
Proceeds from Sale of Capital Assets	41,406	4,711
Net Cash (Used in) Provided by Capital and Related Financing Activities	(23,794,949)	4,575,468
Cash Flows from Investing Activities		
Increase (Decrease) in Assets Whose Use is Limited or Restricted	11,118,349	(16,568,898)
Interest Earned on Investments	351,775	391,314
Net Cash Provided by (Used in) Investing Activities	11,470,124	(16,177,584)
Decrease in Cash and Cash Equivalents	(3,161,012)	(3,706,956)
Cash and Cash Equivalents, Beginning of Year	47,843,289	51,550,245
Cash and Cash Equivalents, End of Year	$ 44,682,277	$ 47,843,289

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, 2010 and 2009

	2010	2009
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	$ 18,698	$ 318,398
Adjustments to Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	7,722,684	8,666,472
Loss on Disposal of Capital Assets	2,580	19,710
Changes in Operating Assets and Liabilities		
Patient Accounts Receivable	(845,940)	673,733
Inventories and Other Operating Assets	711,111	(363,043)
Accounts Payable and Accrued Expenses	2,058,160	(1,497,465)
Net Cash Provided by Operating Activities	$ 9,667,293	$ 7,817,805

The accompanying notes are an integral part of these 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 during 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.

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, 2010 and 2009, 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.

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 and also include costs in excess of net assets acquired in the acquisition of MD Imaging, Inc.

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 $83,474 and $67,109, at December 31, 2010 and 2009, respectively.

Cost in excess of net assets acquired, or goodwill, of $1,277,936 relates to the purchase of the assets of Delta Imaging Partners, Inc. d/b/a MD Imaging for $3,702,527 in May 2006. The Hospital also assumed certain lease obligations in connection with this transaction. This facility provides magnetic resonance imaging, CT imaging, ultrasound, routine x-ray, and bone density services.

Cost in excess of net assets acquired was amortized by the straight-line method over four years. Accumulated amortization was $1,277,936 and $1,158,129, at December 31, 2010 and 2009, 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 2010 and 2009.

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.

Note 1. Organization and Significant Accounting Policies (Continued)

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.

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) 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 71.13% of the lower of cost or charges as of December 31, 2010. 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.

Note 1. Organization and Significant Accounting Policies (Continued)

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. 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.

Note 1. Organization and Significant Accounting Policies (Continued)

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 $622,900 and $186,120, in the years ended December 31, 2010 and 2009, respectively

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 2010 and 2009.

Note 2. Assets Whose Use is Limited or Restricted

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, 2010 and 2009, were as follows:

	2010	2009
Current Assets		
Dedicated Property Tax Revenue, Under Bond Indenture	$ 2,938,198	$ 2,928,770
Total	$ 2,938,198	$ 2,928,770
Non-Current Assets		
Dedicated Property Tax Revenue, Under Bond Indenture	$ 7,478,475	$ 18,470,110
By Board, Designated for Capital Improvements	4,145,043	4,123,858
By State Department of Workers' Compensation	700,000	700,000
By Donors	190,205	122,531
Total	$ 12,513,723	$ 23,416,499

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

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). Included in assets whose use is limited, for 2010, is $3,023,744 of governmental money market investments held in trust and $10,110,002 of cash deposits. Deposit amounts 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.

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.

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, 2010 and 2009, approximately 45% and 46%, 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 2010 for Medicare and Medicaid, the Hospital does not anticipate significant adverse adjustments to the recorded settlements for those years.

Note 3. Third-Party Payor Arrangements (Continued)

The Hospital received additional funding totaling $1,489,344 and $2,991,060, for 2010 and 2009, respectively, from certain federal and state programs for reimbursement of uncompensated care which is included as a component of net patient service revenue.

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, 2010 and 2009, was as follows:

	2010	2009
Gross Patient Service Revenue		
Medicare	**$ 192,536,734**	$ 188,606,520
Medicaid	**70,194,653**	59,120,919
Medicare HMO	**100,570,985**	64,972,957
Managed Care/Commercial	**191,294,620**	197,785,294
Self Pay/Uninsured	**21,331,851**	23,620,620
Total	**575,928,843**	534,106,310
Contractual Adjustments	**(427,416,554)**	(384,517,855)
Charity Care	**(9,352,421)**	(8,531,342)
Provisions for Bad Debts	**(16,094,012)**	(18,897,094)
Total	**$ 123,065,856**	$ 122,160,019

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 mentioned above, charity care provided during the years ended December 31, 2010 and 2009, measured at established rates, totaled $9,352,421 and $8,531,342, respectively. Government subsidies received in 2010 and 2009 totaled $1,489,344 and $2,991,060, respectively (see Note 3).

Note 5. Community Benefits (Continued)

In addition, the Hospital 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 screening at no cost or a reduced cost to the community. Some health screenings 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 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 $2,313,815 and $1,989,774, for the years ended December 31, 2010 and 2009, respectively.

The Hospital also 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 $9,005,119 and $10,124,578, less accumulated amortization of $7,621,208 and $7,831,113, at December 31, 2010 and 2009, respectively.

The future minimum lease payments at December 31, 2010, for noncancelable leases are as follows:

	Operating Leases	Capital Leases
2011	$ 1,946,563	$ 1,278,413
2012	991,981	250,289
2013	478,215	-
2014	409,517	-
2015	52,776	-
2016-2020	851	-
Total	$ 3,879,903	1,528,702
Amounts Representing Imputed Interest (Interest Rates Range from 4.25% to 4.50%)		37,840
Present Value of Capital Lease Obligations (Including $1,242,334 Classified as Amounts Due Within One Year)		$ 1,490,862

Note 6. Leases (Continued)

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 $1,704,168 and $1,829,356, for the years ended December 31, 2010 and 2009, respectively.

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

For the Year Ended December 31,	Amount
2011	$ 1,532,285
2012	1,077,727
2013	743,858
2014	536,063
2015	318,483
Thereafter	93,892
Total	$ 4,302,308

Note 7. Long-Term Debt

The details and balances of long-term debt at December 31, 2010 and 2009, are presented below:

	2010	2009
General Obligation Bonds, Series 2004A, Described in Detail Below ($365,000 Due in 2011)	$ 6,400,000	$ 6,750,000
General Obligation Bonds, Series 2004B, Described in Detail Below ($540,000 Due in 2011)	10,450,000	10,965,000
General Obligation Bonds, Series 2004C, Described in Detail Below ($45,000 Due in 2011)	985,000	1,030,000
Hospital Indebtedness, Series 2005, Described in Detail Below ($1,020,000 Due in 2011)	5,590,000	6,570,000
Community Disaster Loan, Including Accrued Interest, Described in Detail Below (Due in 2016)	26,610,977	25,936,111
General Obligation Bonds, Series 2009, Described in Detail Below ($875,000 Due in 2011)	16,625,000	17,500,000
	66,660,977	68,751,111
Less Amounts Due Within One Year According to Terms of Debt Instruments	2,845,000	2,765,000
Total	$ 63,815,977	$ 65,986,111

Note 7. Long-Term Debt (Continued)

The following table, for the years ended December 31, 2010 and 2009, summarizes the changes in long-term debt:

	2010	2009
Balance of Long-Term Debt at January 1,	**$ 68,751,111**	$ 52,541,244
Less Repayment of Bonds and Notes Payable	**(2,765,000)**	(1,965,000)
Plus Issuance of General Obligation Bonds	-	17,500,000
Plus Long-Term Accrued Interest on CDL Loan	**674,866**	674,867
Balance of Long-Term Debt at December 31,	**$ 66,660,977**	$ 68,751,111

General Obligation Bonds
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.

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.

Note 7. Long-Term Debt (Continued)

General Obligation Bonds (Continued)

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.

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.

The District's general obligation bonds are secured by 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.

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 post-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, 2010 and 2009, respectively. There were no repayments of principal or interest during 2010 or 2009.

Note 7. Long-Term Debt (Continued)

Combined Debt Service Commitments

Principal and interest payments due on general obligation bonds and notes payable are as follows:

Years Ended December 31,	Principal	Interest
2011	$ 2,845,000	$ 1,659,152
2012	2,945,000	1,540,837
2013	3,030,000	1,422,316
2014	3,135,000	1,304,464
2015	3,245,000	1,183,872
2016-2020	34,533,926	7,473,996
2021-2025	10,320,000	1,809,136
2026-2029	3,500,000	319,375
Total	$ 63,553,926	$ 16,713,148

See Note 13 for subsequent events involving long-term debt.

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.

Note 8. Employee Benefits (continued)

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, 2010 and 2009 was $51,961,272 and $50,208,863, respectively. During the years ended December 31, 2010 and 2009, the Hospital and member organizations made required contributions to the plan of $1,381,931 and $1,225,918, 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.

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, 2010, the Hospital has recorded professional and general liability accruals, totaling $684,082 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, 2010, exceeding these coverage limits; however, management believes it has adequately provided for them.

Note 9. Risk Management and Regulatory Matters (Continued)

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, 2010, the Hospital has recorded workers' compensation and employee health accruals, totaling $646,111 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, 2010 and 2009:

Years Ended December 31,	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Year End
2010	$ 1,942,800	$ 4,814,463	$ 5,127,060	$ 1,630,203
2009	1,465,074	6,066,131	5,588,405	1,942,800

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.

Note 9. Risk Management and Regulatory Matters (Continued)

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 2010 and will deduct 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, 2010.

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, 2010 and 2009, was as follows:

Note 10. Concentrations of Credit Risk (Continued)

	2010	2009
Medicare	13%	11%
Medicaid	5%	5%
Medicare HMO	8%	6%
Managed Care and Other Payors	32%	31%
Patients	42%	47%
Total	100%	100%

Note 11. Changes in Capital Assets

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	$ 5,498,648	$ 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

Note 11. Changes in Capital Assets (Continued)

Capital asset activity for the fiscal year ended December 31, 2009, was as follows:

	Balance December 31, 2008	Additions	Deletions	Balance December 31, 2009
Capital Assets Not Being Depreciated				
Land	$ 5,120,890	$ 377,758	$ -	$ 5,498,648
Construction in Process	989,983	7,613,885	-	8,603,868
Total Capital Assets Not Being Depreciated	6,110,873	7,991,643	-	14,102,516
Capital Assets Being Depreciated				
Land Improvements	1,076,492	23,769	-	1,100,261
Buildings	70,185,011	982,092	-	71,167,103
Equipment	57,622,288	1,953,036	(516,966)	59,058,358
Total Capital Assets Being Depreciated	128,883,791	2,958,897	(516,966)	131,325,722
Less Accumulated Depreciation for:				
Land Improvements	968,975	23,403	-	992,378
Buildings	43,895,948	2,617,616	-	46,513,564
Equipment	38,526,129	5,706,344	(492,920)	43,739,553
Total Accumulated Depreciation	83,391,052	8,347,363	(492,920)	91,245,495
Capital Assets Being Depreciated, Net	45,492,739	(5,388,466)	(24,046)	40,080,227
Total	$ 51,603,612	$ 2,603,177	$ (24,046)	$ 54,182,743

Note 12. Hurricane Recovery Funding

In 2005 the Slidell area was severely impacted by the affects of Hurricane Katrina. As does much of the Greater New Orleans metropolitan area, the Hospital continues to recover from the effects of Hurricane Katrina. In the periods immediately subsequent to the Hurricane, the Hospital received additional funding from certain Federal and state programs to aid in the recovery of the impact from the storm and to compensate the Hospital for the significant level of uncompensated care post-Katrina. See also Note 7 discussion.

At December 31, 2010, the Hospital had a payable recorded to FEMA of $250,000 for expenses that were also reimbursed by its insurer. The payable is included in accrued interest and other expenses.

Note 13. Opening of Regional Cancer Center and Other Subsequent Events

During 2010 the Organization completed construction of a 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. Voters in the district served by the Hospital had previously approved a referendum to allow the Hospital to use excess funds from the 2003 bond millage to finance the construction. More than 79 percent of voters had voted in favor of the proposal to invest the required $17.5 million in the project. The bonds were issued June 1, 2009 and are disclosed in detail in Note 7.

On March 30, 2011, the Organization entered into a *Low Income and Needy Care Collaboration Agreement* (LINCCA) with the Louisiana Department of Health and Hospitals (DHH), and a group of private hospital providers. Under the program, the Organization partnered with a group of private hospitals to take over the costs of providing services to low income and needy patients. The program allows for maximization of available federal matching funds through the Upper Payment Limit (UPL) program in Medicaid. The program also requires certain intergovernmental transfers of funds from the Organization to DHH. While the program is anticipated to result in increased funding, the overall impact on the Organization's future financial statements is not known as of the date of these financial statements.

On April 29, 2011 local voters passed a referendum to allow the Organization to borrow $25 million to expand its emergency room department and make other improvements. The timetable for the expected issuance of the bonds and commencement of construction has not yet been determined. The bond issue is to be serviced with revenues from the existing dedicated 7-mill property tax.

LaPorte Sehrt Romig Hand

Certified Public Accountants

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, 2010, and have issued our report thereon dated May 9, 2011. 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.

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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.

LaPorte, Sehrt, Romig & Hand

A Professional Accounting Corporation

May 9, 2011