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

ST. TAMMANY PARISH HOSPITAL

Management's Discussion and Analysis
Consolidated Financial Statements
December 31, 2011 and 2010

LAPORTE
CPAs & BUSINESS ADVISORS

Contents

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

Management's Discussion and Analysis

This section of St Tammany Parish Hospital Service District No 1's (the Hospital) annual financial report presents background information and our analysis of the Hospital's financial performance during the fiscal year that ended on December 31, 2011 Please read it in conjunction with the financial statements in this report

Financial Highlights

The Hospital's change in net assets for the last two years were approximately $17 million in 2011 and $12 4 million in 2010 Net Assets showed an increase of 10 5% in 2011 and 8 3%, in 2010

The assets of the Hospital exceeded liabilities at the close of the 2011 fiscal year by $178 7 million Of that amount, $126 5 million (unrestricted net assets) was available to meet ongoing obligations to the Hospital District's patients and creditors, and $45 9 million was invested in capital assets, net of related debt

The assets of the Hospital exceeded liabilities at the close of the 2010 fiscal year by $161 7 million Of that amount, $114 7 million (unrestricted net assets) was available to meet ongoing obligations to the Hospital District's patients and creditors, and $42 2 million was invested in capital assets, net of related debt

In 2011 net patient service revenue increased by $12 3 million, or 6 0%, from 2010 In 2010 net patient service revenue increased by $8 3 million, or 4 2%, from 2009 Operating expenses increased by $12 million, or 6 1%, in 2011 and $5 9 million, or 3 1%, in 2010 Other revenue (including non-operating revenue) increased by $1 7 million from 2010 to 2011 and increased by $4 2 million from 2009 to 2010 In total, the Hospital experienced an increase in net assets of $4 6 million, as compared to the fiscal year 2010 operations

Overview of the Financial Statements

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

The Consolidated Financial Statements of St Tammany Parish Hospital report the consolidated financial position of the Hospital and the consolidated results of its operations and its cash flows The consolidated financial statements are prepared on the accrual basis of accounting These statements offer short-term and long-term financial information about the Hospital's activities

The Consolidated Balance Sheets include all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities) for both the current year and the prior year It also provides the basis for evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital

All of the current year's revenues and expenses are accounted for in the Consolidated Statements of Revenues, Expenses, and Changes in 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 Statements of Cash Flows is to provide information about the Hospital's cash from operations, investing, and financing activities The cash flow statements outline where the cash comes from, what the cash is used for and the change in the cash balance during the reporting period

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

Financial Analysis of the Hospital

The Consolidated Balance Sheets and the Consolidated Statements of Revenues, 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 indicators of the financial state of the Hospital Other non-financial factors that should also be considered include changes in economic conditions, population growth (including uninsured and working poor) and new or changed government legislation

Net Assets

A summary of the Hospital's Consolidated Balance Sheets is presented in the following table

Table 1: Condensed Consolidated Balance Sheets

	December 31,		
	2011	2010	2009
	(Dollars in Thousands)		
Assets			
Current and other assets	**$ 160,598**	$ 146,819	$ 130,277
Capital assets	**99,125**	95,518	99,883
Total assets	**$ 259,723**	$ 242,337	$ 230,160
Liabilities			
Long-term debt outstanding	**$ 53,779**	$ 55,602	$ 57,957
Other liabilities	**27,283**	25,021	22,897
Total liabilities	**$ 81,062**	$ 80,623	$ 80,854
Net Assets			
Invested in capital assets, net of related debt	**$ 45,951**	$ 42,222	$ 44,252
Restricted	**6,208**	4,820	4,824
Unrestricted	**126,502**	114,672	100,230
Total net assets	**$ 178,661**	$ 161,714	$ 149,306

Summary of Revenues, Expenses, and Changes in Net Assets

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

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

	Years Ended December 31,		
	2011	2010	2009
	(Dollars in Thousands)		
Revenue			
Net patient service revenue net of provision for bad debts of $21,593 in 2011, $19,902 in 2010, $20,312 in 2009,	**$ 216,087**	$ 203,956	$ 195,672
Other operating revenue	**7,047**	4,883	4,507
Total operating revenue	**223,134**	208,839	200,179
Expenses			
Maintenance and operation expenses	**196,946**	185,341	179,828
Depreciation and amortization	**10,448**	10,018	9,651
Total operating expenses	**207,394**	195,359	189,479
Operating net income	**15,740**	13,480	10,700
Investment income and gains and losses	**3,814**	4,254	399
Interest expense	**(2,736)**	(2,940)	(2,918)
Loss on disposal of capital assets	**-**	(438)	(6)
Impairment of capital assets	**-**	(2,317)	-
Excess of revenues over expenses before capital contributions	**16,818**	12,039	8,175
Capital contributions	**129**	369	144
Increase in net assets	**16,947**	12,408	8,319
Total net assets - beginning of year	**161,714**	149,306	140,897
Total net assets - end of year	**$ 178,661**	$ 161,714	$ 149,306

The information below summarizes the Hospital's basic Consolidated Statements of Revenues, Expenses, and Changes in Net Assets for 2011 and 2010

Operating Revenue

During fiscal year 2011 and 2010, the Hospital derived approximately 96 8% and 97 6%, respectively, of its total operating revenues from Net Patient Service Revenues Net Patient Service Revenues include revenues from the Medicare and Medicaid programs, patients, or their third-party carriers who pay for care in the Hospital's facilities

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

	December 31,	
	2011	2010
Medicare	**35%**	33%
Medicaid	**8%**	9%
Managed Care and commercial insurance	**52%**	53%
Self-Pay	**4%**	4%
Other	**1%**	1%
Total gross charges	**100%**	100%

Operating and Financial Performance

The highlights of the Hospital's Statements of Revenues, Expenses, and Changes in Net Assets between 2011 and 2010 include

- During 2011, the Hospital had patient days and admissions of 50,211 and 11,252, respectively During 2010, the Hospital had patient days and admissions of 51,866 and 11,552, respectively This is a decrease in patient days of 3 2% and 2 6% in admissions from fiscal year 2010
- Observation patient volume increased by 497 patients or 17% over 2010 Net "Bedded Patients" (inpatient plus observation) went from 14,490 in 2010 to 14,687 in 2011 or a "Bedded Patient" growth of 197 admissions
- Outpatient visits (including Home Health, Hospice and Physicians) were 249,652 This is an increase of 2 3% from prior year
- Emergency room visits were 34,307, an increase of 2 5% from fiscal year 2010
- Net patient service revenue increased $12 1 million, or 5 9%, in 2011
- Employee compensation increased $4 2 million or 3 9% to reflect merit increases driven by market adjustments for professional staff and to address the competitive nursing market and rising health insurance costs
- Supplies and other professional services increased approximately 9 0%, which was materially related to rising costs in drugs

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

- During 2010, the Hospital had patient days and admissions of 51,866 and 11,552, respectively This is an increase in patient days of 7% and 1 1% in admissions from fiscal year 2009
- Observation patient volume increased by 488 patients or 19 9% over 2009 Net "Bedded Patients" (inpatient plus observation) went from 13,881 in 2009 to 14,490 in 2010 or a "Bedded Patient" growth of 609 admissions
- Outpatient visits (including Home Health, Hospice and Physicians) were 244,124 This is a decrease of 1 3% from prior year
- Emergency room visits were 33,474, a decrease of 2 9% from fiscal year 2009
- Net patient service revenue increased $8 3 million, or 4 2%, in 2010
- Employee compensation increased $2 2 million or 2 2% to reflect merit increases driven by market adjustments for professional staff and to address the competitive nursing market and rising health insurance costs
- Supplies and other professional services increased approximately 5 2%, which was materially related to rising costs in drugs
- Provision for bad debts decreased by 10 1% from prior year
- Investment income decreased $4 8 million, from prior year mainly due to adjustments made to reflect the market value of investments at year end

2011 Budget to Actual Comparison (In Thousands)

In comparing actual results of operations versus budgeted 2011 results, the following is noted

	For the Years Ended December 31, Budget 2011	For the Years Ended December 31, Actual 2011	Favorable (Unfavorable) Variance
Revenues			
Net patient service revenue net of provision for bad debts of $26,790 budget and $21,593 actual	$ 206,767	$ 216,087	$ 9,320
Other operating revenue	4,555	7,047	2,492
Total revenues	211,322	223,134	11,812
Operating expenses			
Salaries, wages, and benefits	109,204	110,262	(1,058)
Supplies and other	68,641	71,691	(3,050)
Professional and contractual services	12,663	14,993	(2,330)
Depreciation and amortization	10,273	10,448	(175)
Total operating expenses	200,781	207,394	(6,613)
Non-operating income/(expenses), net	395	1,078	683
Excess of revenues over expenses	$ 10,936	$ 16,818	$ 5,882

The Hospital's Cash Flows

Changes in the Hospital's cash flows as illustrated in the Consolidated Statements of Cash Flows appearing on page 6 are generally consistent with changes in operating gains and non-operating revenues and expenses, as discussed earlier Overall cash and cash equivalents increased in 2011

Capital Assets

The table below details the changes in the Hospital's capital assets during the year ended December 31, 2011

Capital Assets (In Thousands)

	December 31, 2011	December 31, 2010	Dollar Change	Percent Change
Land and improvements	**$ 8,921**	$ 8,372	$ 549	7%
Buildings	**103,054**	97,935	5,119	5%
Equipment	**90,104**	82,731	7,373	9%
Construction in progress	**1,705**	697	1,008	145%
Subtotal	**203,784**	189,735	14,049	7%
Less accumulated depreciation and amortization	**(104,659)**	(94,217)	(10,442)	11%
Property, plant and equipment, net	**$ 99,125**	$ 95,518	$ 3,607	4%

- Net Property, Plant, and Equipment increased by approximately $3 6 million during 2011 Expenditures of $5 1 million are related to expansion and enhancement projects of the physical buildings Expenditures of $7 4 million are related to replacement of routine equipment and enhancement of information systems

- Net Property, Plant, and Equipment decreased by approximately $4 4 million during 2010 Expenditures of $4 9 million are related to expansion and enhancement projects of the physical buildings Expenditures of $3 5 million are related to replacement of routine equipment and enhancement of information systems During 2010, the decision was made to change the strategic planning outlook and redirect expansion of physical plant Expenditures made during prior years of $2 3 million made towards future expansion of 5th and 6th floors were expensed

Projected Capital Expenditures for FY 2011

The Hospital projects spending $15 2 million on capital projects during FY 2012 This amount is expected to be financed from operations

Debt Administration

2011 Long-Term Debt

At year-end, the Hospital had $50 6 million in long-term debt Total long-term debt represents 62 4% of the Hospital's total liabilities as of year-end During 2011, the Hospital refinanced its existing bonds to take advantage of lower interest rates along with shortening the life of existing debt

2010 Long-Term Debt

At year-end, the Hospital had $52 8 million in long-term debt Total long-term debt represents 64 7% of the Hospital's total liabilities as of year-end

Economic Factors and Next Year's Budget

The Hospital's Board and Management considered many factors when setting the fiscal year 2012 budget Of primary importance in setting the 2012 budget is the status of the economy, which takes into account market forces and environmental factors such as

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

Contacting the Hospital Financial Manager

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

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Independent Auditor's Report

To the Board of Commissioners
St Tammany Parish Hospital Service District No 1
St Tammany Parish, Louisiana

We have audited the accompanying basic consolidated financial statements of St Tammany Parish Hospital Service District No 1 of St Tammany Parish, Louisiana (St Tammany Parish Hospital), as of and for the years ended December 31, 2011 and 2010 These basic consolidated financial statements are the responsibility of St Tammany Parish Hospital's management Our responsibility is to express an opinion on these basic consolidated financial statements based on our audits

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic consolidated financial statements are free of material misstatement An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic consolidated 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 basic consolidated financial statements referred to above present fairly, in all material respects, the financial position of St Tammany Parish Hospital as of December 31, 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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2012, on our consideration of St Tammany Parish Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i through ix be presented to supplement the basic consolidated financial statements Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

LaPorte

A Professional Accounting Corporation

April 20, 2012

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

Consolidated Balance Sheets
December 31, 2011 and 2010 (In Thousands)

Assets	**2011**	2010
Current assets		
Cash and cash equivalents	**$ 17,657**	$ 9,766
Investments	**82,402**	83,924
Noncurrent cash and investments required for current liabilities	**3,439**	4,100
Patient accounts receivable, net of allowance for doubtful accounts of $30,445 in 2011 and $27,283 in 2010	**32,914**	26,261
Inventories	**4,557**	4,255
Prepaid expenses and other receivables	**3,683**	3,816
Total current assets	**144,652**	132,122
Noncurrent cash and investments		
Held by trustee under bond indenture	**605**	2,304
Held by trustee under bond ordinances	**5,508**	4,120
Designated by board for capital improvements, and facility enhancements	**9,648**	9,648
Designated by board for Community ER Services	**1,034**	1,030
Held by others for professional and other liability claims	**700**	700
	17,495	17,802
Less noncurrent cash and investments required for current liabilities	**(3,439)**	(4,100)
Total noncurrent cash and investments	**14,056**	13,702
Capital assets		
Land and improvements	**8,921**	8,372
Buildings	**103,054**	97,935
Equipment	**90,104**	82,731
Construction in progress	**1,705**	697
Less accumulated depreciation and amortization	**(104,659)**	(94,217)
Total capital assets, net	**99,125**	95,518
Other assets	**1,890**	995
Total assets	**$ 259,723**	$ 242,337

See notes to consolidated financial statements

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

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

Liabilities and Net Assets	2011	2010
Current liabilities		
Accounts payable and accrued expenses	$ 7,992	$ 6,802
Accrued employee compensation	8,002	6,576
Accrued vacation	3,768	3,622
Settlements due to Medicare and Medicaid intermediaries	4,943	4,460
Amounts due within one year on long-term debt	3,200	2,816
Total current liabilities	27,905	24,276
Accrued professional liability claims	2,369	3,485
Other long-term liabilities	209	76
Long-term debt, net of current maturities	50,579	52,786
Total liabilities	81,062	80,623
Net assets		
Invested in capital assets, net of related debt	45,951	42,222
Restricted for debt service and capital projects	6,208	4,820
Unrestricted	126,502	114,672
Total net assets	178,661	161,714
Total liabilities and net assets	$ 259,723	$ 242,337

See notes to consolidated financial statements

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

Consolidated Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2011 and 2010 (In Thousands)

	2011	2010
Operating revenues		
Net patient service revenue, net of provision for bad debts of $21,593 in 2011 and $19,902 in 2010	$ 216,087	$ 203,956
Other revenue	7,047	4,883
Total operating revenues	223,134	208,839
Operating expenses		
Salaries, wages and benefits	110,262	106,080
Supplies and other	71,691	66,764
Professional and contractual services	14,993	12,497
Depreciation and amortization	10,448	10,018
Total operating expenses	207,394	195,359
Income from operations	15,740	13,480
Non-operating revenues (expenses)		
Investment income and gains and losses	3,814	4,254
Interest expense	(2,736)	(2,940)
Loss on disposal of capital assets	-	(438)
Impairment of capital assets	-	(2,317)
Total non-operating revenues (expenses)	1,078	(1,441)
Excess of revenues over expenses before capital contributions	16,818	12,039
Capital contributions	129	369
Change in net assets	16,947	12,408
Net Assets		
Beginning	161,714	149,306
Ending	$ 178,661	$ 161,714

See notes to consolidated financial statements

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

Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010 (In Thousands)

	2011	2010
Cash flows from operating activities		
Cash received from patient services	$ 216,965	$ 209,815
Cash paid to or on behalf of employees	(108,690)	(104,868)
Cash paid for supplies and services	(86,621)	(80,609)
Net cash provided by operating activities	21,654	24,338
Cash flows from capital and related financing activities		
Capital contributions	129	369
Purchase of capital assets	(14,054)	(8,409)
Principal payments on long-term debt	(56,720)	(2,445)
Debt proceeds	55,080	-
Interest payments	(3,914)	(2,843)
Net cash used in capital and related financing activities	(19,479)	(13,328)
Cash flows from investing activites		
Proceeds from sale and maturities of investments and noncurrent cash equivalents	53,751	38,823
Purchases of investments and noncurrent cash equivalents	(51,922)	(55,336)
Investment interest received	3,887	4,282
Net cash provided by (used in) investing activities	5,716	(12,231)
Increase (decrease) in cash and cash equivalents	7,891	(1,221)
Cash and cash equivalents		
Beginning	9,766	10,987
Ending	$ 17,657	$ 9,766

See notes to consolidated financial statements

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

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

	2011	2010
Reconciliation of operating income to net cash provided by operating activities		
Operating Income	$ 15,740	$ 13,480
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for bad debts	21,593	19,902
Depreciation and amortization	10,448	10,018
Changes in operating assets and liabilities		
Patient accounts receivable	(28,246)	(20,342)
Inventories, prepaid expenses and other receivables	(243)	(558)
Other assets	(945)	(332)
Accounts payable and accrued expenses	2,235	(869)
Accrued employee compensation and vacation	1,572	1,212
Net settlements due to Medicare and Medicaid intermediaries	483	1,416
Other long-term liabilities	133	76
Accrued professional liability claims	(1,116)	335
Net cash provided by operating activities	$ 21,654	$ 24,338
Schedule of noncash capital and related financing activities, impairment loss related to MOB 5th and 6th floor expansion	$ -	$ 2,317

See notes to consolidated financial statements

Note 1. Organization and Significant Accounting Policies

Organization St Tammany Parish Hospital (the Hospital) is owned and operated by St Tammany Parish Hospital Service District No 1 of St Tammany Parish, Louisiana (a nonprofit corporation organized by the St Tammany Parish Police Jury under provisions of Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950) The Hospital is exempt from federal income taxes under Section 115 of the Internal Revenue Code The governing authority of St Tammany Parish Hospital Service District No 1 (the District) is the St Tammany Parish Hospital Board of Commissioners The St Tammany Parish Council appoints members of the Hospital's Board of Commissioners

Practice Management Consultants (PMC) was formed in 2010 and shall continue perpetually PMC will provide a variety of management services to physicians As of December 31, 2011, there has been no activity by PMC

Principles of Consolidation The consolidated financial statements include the Hospital, St Tammany Medical Services (STMS), Practice Management Consultants (PMC), and St Tammany Physician Network (STPN) STMS, PMC and STPN are corporations, which are wholly owned by the Hospital STMS, PMC and STPN are not, however, exempt from federal taxation No income taxes were paid or owed for the years ended December 31, 2011 and 2010, by STMS, PMC or STPN All material intercompany accounts and transactions have been eliminated upon consolidation

Enterprise Fund Accounting The Hospital uses enterprise fund accounting Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus Based on Governmental Accounting Standards Board (GASB) Statement No 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), excluding those issued after November 30, 1989

Net Patient Service Revenue and Related Receivables Net patient service revenue and the related accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered The Hospital provides care to patients even though they may lack adequate insurance or may be covered under contractual arrangements that do not pay full charges As a result, the Hospital is exposed to certain credit risk The Hospital manages such risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances

Medicare and Medicaid Reimbursement Programs The Hospital is reimbursed under the Medicare Prospective Payment System (PPS) for acute care inpatient services provided to Medicare beneficiaries and is paid a predetermined amount for these services based, for the most part, on the MS-Diagnosis Related Group (MS-DRG) assigned to the patient

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

Note 1. Organization and Significant Accounting Policies (Continued)

Medicare and Medicaid Reimbursement Programs (Continued) Home health services rendered to Medicare beneficiaries are reimbursed under a per-episode prospective payment system Outpatient services rendered to Medicare beneficiaries are reimbursed by the Outpatient Prospective Payment System (OPPS), which establishes a number of Ambulatory Payment Classifications (APC) for outpatient procedures in which the Hospital is paid a predetermined amount per procedure Medicaid outpatient services are reimbursed based on cost reimbursement and fee schedule limitations The cost-based rates are subject to retroactive adjustments Both Medicare and Medicaid outpatient clinical lab and Medicaid ambulatory surgery services are reimbursed based upon the respective fee schedules

Retroactive cost settlements based upon annual cost reports are estimated for those programs subject to retroactive settlement and recorded in the consolidated financial statements Final determination of retroactive cost settlements to be received under the Medicare and Medicaid regulations is subject to review by program representatives Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in a future period as final settlements are determined or determinable

Charity Care The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue The Hospital maintains records to identify and monitor the level of charity care it provides to all of its qualifying patients These records include the amount of charges foregone for services and supplies furnished under its charity care policy The Hospital provided charity care of approximately $8,819,000 and $8,952,000, for the years ended December 31, 2011 and 2010, respectively, based upon charges foregone using established rates

Cash and Cash Equivalents Cash and cash equivalents include investments in highly liquid debt instruments and money market accounts with an original maturity of three months or less when purchased and exclude amounts whose use is limited by board designation or under bond requirements

Investments Investments include investments in certificates of deposit, U S Government and federal agency securities and external investment pools and are stated at fair market value Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned During 2011 and 2010, the net increase in fair value of the Hospital's investments, included in investment income was $815,000 and $601,000, respectively

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

Note 1. Organization and Significant Accounting Policies (Continued)

Capital Assets The Hospital's capitalization policy requires the recordation at acquisition cost (or fair value at the date of donation, if donated) of individual long-lived assets in excess of $500 The policy provides for depreciation using the straight-line method in amounts sufficient to amortize the cost of its assets over their estimated useful lives Estimated useful lives for buildings are 15 to 40 years, and 3 to 25 years for equipment Assets held under capital lease obligations are recorded at the present value of the minimum lease payments and are included in equipment Amortization of leased assets is included in the Consolidated Statements of Revenue, Expenses, and Changes in Net Assets as Depreciation and amortization expense

Unamortized Loss on Advance Refunding In a prior year, the Hospital incurred a loss in connection with the advance refunding of the Hospital's revenue bonds which has been deferred and is being amortized over the life of the refunded bond issue Accumulated amortization on this deferred loss was approximately $1,059,000 and $988,000, at December 31, 2011 and 2010, respectively In 2011, the Hospital incurred a loss of approximately $268,000, in connection with the advance refunding of the Hospital's revenue bonds which has been deferred and is being amortized over the life of the refunded bond issue Accumulated amortization on this deferred loss was $2,400, at December 31, 2011 Amortization is included in Interest expense on the Consolidated Statement of Revenues, Expenses, and Changes in Net Assets

Employee Health and Workers' Compensation Insurance The Hospital is self-insured for hospitalization and workers' compensation claims Estimated amounts for claims incurred but not reported are calculated based on claims experience and, together with unpaid claims, are included in Accrued employee compensation and Accounts payable and Accrued expenses, respectively, on the Consolidated 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, respectively Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or investment income

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

Note 1. Organization and Significant Accounting Policies (Continued)

Grants and Contributions From time to time, the Hospital receives grants from the State of Louisiana, as well as contributions from individuals and private organizations Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met Grants and contributions may be restricted for either specific operating purposes or for capital purposes Grants unrestricted as to their use or that are restricted to a specific operating purpose are reported as non-operating revenues Amounts restricted to capital acquisitions are reported as Capital contributions on the Consolidated Statement of Revenues, Expenses, and Changes in Net Assets

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

Net Assets Net assets of the Hospital are classified in three components Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets Restricted net assets are non-capital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with Trustees as required by revenue bond indentures, discussed in Note 5 Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted

Operating Revenues and Expenses The Hospital's Consolidated Statements of Revenues, Expenses and Changes in Net Assets distinguish between operating and non-operating revenues and expenses Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity Non-exchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues Operating expenses are all expenses incurred to provide health care services, other than financing costs

Note 2. Deposits and Investments

Louisiana statutes require that all of the Hospital's deposits be protected by insurance or collateral The market value of collateral pledged must equal, at least,100% of the deposits not covered by insurance As of December 31, 2011 and 2010, the Hospital's bank balances (including cash, money market accounts and certificates of deposit) were entirely insured or collateralized by investments held by the Hospital's third-party agent in the Hospital's name

The Hospital's investments generally are reported at fair value, as discussed in Note 1 At December 31, 2011 and 2010, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by a custodial bank or trust that is an agent of the Hospital

Note 2. *Deposits and Investments (Continued)*

December 31, 2011

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

December 31, 2010

Investment Type	Carrying Amount	Investment Maturities (in Years) Less Than 1	1 - 5	>5
		(amounts in thousands)		
Federal Farm Credit Bureau	$ 26,577	$ -	$ 3,833	$ 22,744
Federal Home Loan Bank	29,560	2,518	14,724	12,318
Federal Home Loan Mortgage Corporation	10,674	-	4,010	6,664
US Treasury Note	2,011	2,011	-	-
Federal National Mortgage Association	16,783	-	5,988	10,795
Federal Agricultural Mortgage Corporation	4,962	-	-	4,962
Total	$ 90,567	$ 4,529	$ 28,555	$ 57,483

Interest Rate Risk During 2010, the Hospital revised their formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates

Note 2. Deposits and Investments (Continued)

Credit Risk The Hospital may invest idle funds as authorized by Louisiana Statutes, as follows

a Direct United States Treasury obligations, the principal and interest of which are fully guaranteed by the government of the United States

b United States government agency obligations, the principal and interest of which are fully guaranteed by the government of the United States, or United States government obligations

c Time certificates of deposit of state banks organized under the laws of Louisiana and national banks having their principal office in the State of Louisiana

d Mutual or trust funds, which are registered with the Securities and Exchange Commission under the Securities Act of 1933, and the Investment Act of 1940, and which have underlying investments consisting solely of and limited to securities of the United States government or its agencies

As of December 31, 2011, the Hospital's investments were rated AAA by Standard and Poor's and Fitch Ratings and AA+ by Moody's Investor Services with the exception of the Hospital's investments in Federal Agricultural Mortgage Corporation (FAMCA) securities which are unrated

Concentration of Credit Risk The Hospital places no limit on the amount it may invest in any one issuer Issuers comprising 5 percent or more of the Hospital's investments at December 31, 2011 and 2010, were as follows

Issuer	2011	2010
Federal Farm Credit Bureau	**22%**	29%
Federal Home Loan Bank	**31%**	33%
Federal Home Loan Mortgage Corporation	**18%**	12%
Federal National Mortgage Association	**22%**	19%
Federal Agricultural Mortgage Corporation	**7%**	5%

Note 2. Deposits and Investments (Continued)

The fair values of deposits and investments included in the Hospital's Consolidated Balance Sheets as of December 31, 2011 and 2010 are as follows

	2011	2010
Carrying amount		
Deposits	**$ 28,510**	$ 20,925
Investments	**89,044**	90,557
	$ 117,554	$ 111,482
Included in the following balance sheet captions		
Current assets		
Cash and cash equivalents	**$ 17,657**	$ 9,766
Investments	**82,402**	83,924
Noncurrent cash and investments required for current liabilities	**3,439**	4,100
Noncurrent cash and investments		
Under bond indenture held by Trustee	**605**	2,304
Under bond ordinances held by Trustee	**5,508**	4,120
By board for capital improvements, and facility enhancements	**9,648**	9,648
By board for Community ER Services	**1,034**	1,030
By others for professional and other liability claims	**700**	700
Less amount required for current liabilities	**(3,439)**	(4,100)
	$ 117,554	$ 111,492

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

The terms of the Hospital's revenue bonds require funds to be maintained on deposit in certain accounts with the Trustee In connection with the issuance of the Series 2011 Hospital Revenue and Refunding Bonds, the Hospital established a Debt Service Reserve Fund for the purpose of making payments of principal and interest on the bonds if funds available for payment of principal and interest were insufficient The funds held by the Trustee in this account are subject to a prior lien in favor of the owners of the bonds

Note 2. Deposits and Investments (Continued)

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

Of the approximate $126,502,000 and $114,672,000, of unrestricted net assets at December 31, 2011 and 2010, respectively, $9,648,000 has been designated by the Hospital's board of commissioners for capital improvements and facility enhancements The designated funds are reflected as a component of noncurrent cash and investments on the Consolidated Balance Sheets, and remain under the board of commissioners, which may at its discretion later use the funds for other purposes

Interest income and gains and losses were approximately $3,814,000 and $4,254,000, for 2011 and 2010, respectively Fluctuation in investment income is related to recording changes in investment income, related to market valuation as of December 31st

Note 3. Third-Party Payor Arrangements

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries During the years ended December 31, 2011 and 2010, approximately 31% and 28%, respectively, of the Hospital's net patient service charges were furnished to Medicare and Medicaid program beneficiaries Revenue derived from the Medicare program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the United States Department of Human Services before settlement amounts become final Revenue derived from the Medicaid program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the Department of Health and Hospitals of the State of Louisiana before those settlement amounts become final Estimated settlements for Medicare through December 31, 2009, have been reviewed by program representatives Estimated settlements for Medicaid have been reviewed through December 31, 2006

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations Inpatient and outpatient services rendered to managed care subscribers are reimbursed at prospectively determined rates per discharge, discounts from established changes, and prospectively determined daily rates

Note 4. Capital Assets

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

	December 31, 2010	Additions	Transfers and Disposals	December 31, 2011
Capital assets, not being depreciated				
Land	$ 5,148	$ -	$ -	$ 5,148
Construction in progress	697	9,104	(8,096)	1,705
Total capital assets not being depreciated	5,845	9,104	(8,096)	6,853
Capital assets, being depreciated				
Land improvements	3,224	9	540	3,773
Buildings and improvements	97,935	50	5,069	103,054
Equipment	82,731	4,892	2,481	90,104
Total capital assets being depreciated	183,890	4,951	8,090	196,931
Less total accumulated depreciation	(94,217)	(10,448)	6	(104,659)
Total capital assets, being depreciated, net	89,673	(5,497)	8,096	92,272
Organization capital assets, net	$ 95,518	$ 3,607	$ -	$ 99,125

Depreciation expense reported during the fiscal year ended December 31, 2011 and 2010, was approximately $10,448,000 and $10,018,000 (exclusive of amortization expense), respectively

Note 4. Capital Assets (Continued)

A summary of changes in the Hospital's capital assets during 2010, is as follows (in thousands)

	December 31, 2009	Additions	Transfers and Disposals	December 31, 2010
Capital assets, not being depreciated				
Land	$ 5,148	$ -	$ -	$ 5,148
Construction in progress	3,859	4,926	(8,088)	697
Total capital assets not being depreciated	9,007	4,926	(8,088)	5,845
Capital assets, being depreciated				
Land improvements	2,514	-	710	3,224
Buildings and improvements	98,023	2	(90)	97,935
Equipment	76,616	3,482	2,633	82,731
Total capital assets being depreciated	177,153	3,484	3,253	183,890
Less total accumulated depreciation	(86,277)	(10,018)	2,078	(94,217)
Total capital assets, being depreciated, net	90,876	(6,534)	5,331	89,673
Organization capital assets, net	$ 99,883	$ (1,608)	$ (2,757)	$ 95,518

Note 5. Long-Term Debt

The details and balances of long-term debt at December 31, 2011 and 2010, are presented below

	2011	2010
	(In Thousands)	
Hospital Revenue and Refunding Bonds, Series 1998, net of unamortized original issue discount of $-0- and $183,000 at December 31, 2011 and 2010, respectively	$ -	$ 48,472
Hospital Indebtedness, Series 2004	-	8,065
Hospital Revenue and Refunding Bonds, Series 2011, net of unamortized original issue discount of $170,000 and $-0- at December 31, 2011 and 2010, respectively	54,910	-
Less amounts due within one year	(3,200)	(2,816)
Unamortized loss on advance refunding	(1,131)	(935)
Total long-term debt	$ 50,579	$ 52,786

Hospital Revenue and Refunding Bonds, Series 2011 On November 1, 2011, the Hospital issued $55,080,000 of tax-exempt Hospital Revenue and Refunding Bonds, Series 2011 (the bonds), with an interest rate ranging from 2% to 4 5% to advance refund $46,925,000 of outstanding 1998 Series Hospital Revenue and Refunding Bonds with interest rates ranging from 4 25% to 5 0% The bonds were also used to pay off the approximate $6,980,000 of Hospital Indebtedness outstanding with an average interest rate of 3 5% The net proceeds of $48,560,000 (after payment of $744,000 in underwriting fees, insurance, and other issuance costs) plus an additional $5,511,000 of 1998 Series bonds and the First supplemental indenture sinking 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 1998 Series bonds As a result, the 1998 Series bonds are considered to be defeased and the liability for those bonds has been removed from the Hospital's Consolidated Balance Sheet

The bonds have a final maturity of July 1, 2021, and are secured by a pledge of the Hospital's revenues The bonds were issued at a premium of $475,651, and the premium is being amortized over the lives of the bonds using the interest method In connection with the issuance of the bonds, the Hospital is required to maintain a debt service coverage ratio (as defined by the Trust Indenture) of 110% As of December 31, 2011, the Hospital was in compliance with the provisions of the Trust Indenture

Note 5. Long-Term Debt (Continued)

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $268,000 This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2021 The Hospital completed the advance refunding to reduce its total debt service payments over the next 17 years by approximately $13,070,000, and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately $1,665,000

A summary of changes in long-term debt during 2011 and 2010, is as follows (in thousands)

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

	December 31, 2009	Borrowings	Payments	December 31, 2010	Due Within One Year
Hospital Revenue Refunding Bonds, Series 1998	$ 50,300	$ -	$ (1,645)	$ 48,655	$ 1,730
Hospital Indebtedness,					
First Issue - Dec 2004	874	-	(269)	605	269
Second Issue - Sept 2005	1,991	-	(531)	1,460	531
Third Issue - Sept 2009	6,000	-	-	6,000	286
	$ 59,165	$ -	$ (2,445)	$ 56,720	$ 2,816

Note 5. Long-Term Debt (Continued)

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

December 31,	Principal	Interest
2012	$ 3,200	$ 1,036
2013	5,190	1,594
2014	5,290	1,490
2015	5,435	1,345
2016	5,560	1,220
2017-2021	30,405	3,486
	$ 55,080	$ 10,171

A summary of interest cost and investment income on borrowed funds held by the Trustee under the Hospital Revenue and Refunding Bonds during the years ended 2011 and 2010 follows (in thousands)

	2011	2010
Interest Cost		
Charged to non-operating expenses	$ 2,736	$ 2,940
	$ 2,736	$ 2,940
Investment Income		
Credited to non-operating income	$ 3,814	$ 4,254
	$ 3,814	$ 4,254

Note 6. Commitments

The Hospital is a party to multiple operating leases for equipment and property utilized in its operations Total rental expense incurred for all operating leases and rentals was $4,575,000 and $4,225,000, for the years ended December 31, 2011 and 2010, respectively

The future minimum lease payments at December 31, 2011, for non-cancelable operating leases are as follows (in thousands)

2012	$ 5,042
2013	3,582
2014	3,240
2015	2,852
2016	2,513
	$ 17,229

Note 7. Compensated Absences

Employees of the Hospital are entitled to paid time off depending on their length of service and other factors Accrued compensated absences included as accrued vacation on the Hospital's Consolidated Balance Sheets were $3,768,000 and $3,622,000, as of December 31, 2011 and 2010, respectively

Note 8. Employee Benefit Plans

The Hospital has a noncontributory defined contribution plan (the Plan) that covers substantially all of its employees The Plan allows for employees age 21 or older with one year of service (defined as 1,000 hours of service in any one year) to participate The Plan Agreement requires contributions to the Plan equal to 6% of the aggregate compensation of all participants Participating employees with five or more years of service become 100% vested in their account balance Employees terminating their employment prior to five years forfeit their account balance

Total payroll and covered payroll for all Hospital employees during the year ended December 31, 2011, totaled approximately $84,427,000 and $71,196,000, respectively Total payroll and covered payroll for all Hospital employees during the year ended December 31, 2010, totaled approximately $81,741,000 and $78,904,000, respectively Contributions during 2011 and 2010 required by the Plan document were approximately $4,578,000 and $4,385,000, respectively, which represents approximately 6% of covered payroll Required contributions paid by the Hospital net of application of forfeiture of non-vested accounts were approximately $4,307,000 and $4,128,000, respectively, during the years ended December 31, 2011 and 2010

Note 8. Employee Benefit Plans (Continued)

Pension expense included in salaries, wages and benefits related to the Plan described above approximated $4,458,000 and $4,190,000, for the years ended December 31, 2011 and 2010, respectively

The Hospital provides a Community Emergency Services Plan (CESP) to certain independent contractor physicians The purpose of the CESP is to assist the Hospital in attracting and retaining highly qualified individuals to provide services to the Hospital under the Hospital's Community Emergency Services Program The CESP is a deferred compensation plan taxed under Code section 457(f) and provides independent contractor physician compensation on a deferred basis for providing emergency department call coverage The Hospital contributed approximately $1,156,000 and $1,066,000, to the CESP during 2011 and 2010, respectively

The Hospital has deferred compensation plans for its senior executive staff During the years ended December 31, 2011 and 2010, the Hospital recognized an expense of approximately $133,000 and $76,000, respectively, in relation to these plans A corresponding liability of approximately $209,000 and $76,000, is included in the Consolidated Balance Sheets at December 31, 2011 and 2010, respectively These compensation arrangements have been established with a goal of executive retention

Note 9. Contingencies and Risk Management

Professional Liability and Self Insurance The Hospital participates in the Louisiana Patients' Compensation Fund (the Fund) for medical malpractice claims As a participant, the Hospital has a statutory limitation of liability, which provides that no award can be rendered against it in excess of $500,000, plus interest and costs The Fund provides coverage on an occurrence basis for claims over $100,000 and up to $500,000 The Hospital is self-insured for costs up to $100,000 per claim

The Hospital is involved in litigation arising in the ordinary course of business Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation It is the opinion of management that estimated malpractice costs resulting from pending or threatened litigation are adequately accrued at December 31, 2011 Losses from asserted claims and from unasserted claims identified under the Hospital's incident reporting system are accrued based on estimates that incorporate the Hospital's past experience as well as other considerations including the nature of each claim or incident and relevant trend factors

Additional claims may be asserted against the Hospital arising from service provided to patients through December 31, 2011, that have not been identified under the incident reporting system The Hospital is unable to determine the ultimate cost of the resolution of such potential claims, however, management believes it has adequately provided for them

Note 9. Contingencies and Risk Management (Continued)

The Hospital self-insures against losses related to workers' compensation and employee health claims Excess loss coverage is purchased for workers' compensation in amounts of $500,000 and excess loss coverage for individual employee health claims is purchased in amounts of $235,000

The following is a summary of the activity in the liability for medical malpractice, workers' compensation and employee health claims for the years ended December 31, 2011 and 2010, (in thousands)

	Beginning Balance	Expense and Changes in Estimates	Payments	Ending Balance
2010	$ 4,861	$ 12,942	$ 11,984	$ 5,819
2011	$ 5,819	$ 13,622	$ 13,164	$ 6,277

An insurance recovery of $732,000 was received during the year ended December 31, 2011, which has been reported in the Consolidated Statements of Revenues, Expenses, and Changes in Net Assets

Laws and Regulations The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time These laws and regulations include, but are not limited to, accreditation, licensure, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers Violations of these laws and regulations could result in exclusion from government healthcare program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received While the Hospital is subject to similar regulatory reviews, management believes the Hospital is not the subject of any investigation at this time, and the outcome of any such regulatory review will not have a material adverse effect on the Hospital's financial position

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement Recovery Audit Contractor (RAC) and Medicaid Integrity Contractor (MIC) programs on a permanent and nationwide basis The programs use RACs and MICs to search for potentially improper Medicare or Medicaid payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, on payments that have occurred at least one year ago but not longer than three years ago Once a RAC or MIC identifies a claim it believes to be improper, it makes a deduction from the provider's Medicare or Medicaid reimbursement in an amount estimated to equal the overpayment

Note 9. Contingencies and Risk Management (Continued)

The Hospital will deduct from revenue, amounts assessed under the RAC and MIC audits at the time a notice is received until such time that estimates of net amounts due can be reasonably estimated RAC and MIC assessments are anticipated, however, the outcome of such assessments is unknown and cannot be reasonably estimated Management's experience has determined that RAC and MIC assessments have been insignificant to date

Note 10. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements The mix of receivables from patients and third-party payors at December 31st was as follows

	2011	2010
Medicare	**24%**	31%
Medicaid	**6**	5
Insurance/Managed Care	**53**	51
Patients	**17**	13
	100%	100%

Note 11. St. Tammany Hospital Foundation Cooperative Endeavor Agreement

The Hospital receives support from the St Tammany Parish Hospital Foundation (the Foundation) The Foundation was formed in February 2003, and is a legally separate 501(c)(3) non-profit organization governed by a separate Board of Trustees It is currently not considered a component unit of the Hospital under the criteria established by Governmental Accounting Standards Board Statement No 39, *Determining Whether Certain Organizations Are Component Units an Amendment of GASB Statement 14* The Foundation's net assets as of December 31, 2011 and 2010, were $4,520,000 and $4,134,000 respectively Contributions recognized by the Hospital in the form of monetary and non-monetary contributions and donations were $889,000 and $1,185,000, in 2011 and 2010, respectively

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

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

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

Under the terms of the agreement the Hospital assumes the obligation to provide administrative services, use of office space, equipment and supplies utilized in the Foundation's day to day operations The Foundation's executive director is selected and employed by the Hospital, subject to the concurrence of the executive committee of the board of trustees of Foundation The executive director reports to, and works in partnership with the CEO of the Hospital and the Foundation's board of trustees

The total amount of expenditures recognized in the Hospital's December 31, 2011 and 2010 financial statements in connection with the agreement were $421,000 and $379,000, respectively It is at least reasonably possible that as the economic resources received and/or held by the Foundation grow in significance to the Hospital, that inclusion as a component unit in the Hospital's financial statements may be necessary

Note 12. Medicaid Disproportionate Share Hospital Reimbursement Cooperative Endeavor Agreement

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

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

The Hospital received funds under this grant program in the amount of approximately $1,712,000, in 2011 The funds are presented as other operating revenues on the Consolidated Statements of Revenue, Expenses, and Changes in Net Assets as of December 31, 2011

Note 13. Mary Bird Perkins Cancer Center Cooperative Endeavor Agreement

On April 4, 2011 the Hospital entered into a cooperative endeavor agreement (CEA) with Mary Bird Perkins Cancer Center (MBPCC) The purpose of this CEA is to enhance the effectiveness and quality of both parties' cancer-related programs and establish a premier cancer center for patients of western St Tammany Parish and the surrounding areas To achieve this purpose, both parties agreed to operate their respective cancer-related activities as a comprehensive cancer center as directed by the Cancer Center Leadership Team which is made up of members from both parties Under this CEA, MPBCC agrees to use program funds obtained from unrestricted grants and contracts to fund activities where the Hospital and MBPCC have agreed to share responsibility via an approved cancer center budget MBPCC also agrees to transfer 75% of unrestricted community philanthropy it receives from donors for the Cancer Center to STPH Foundation for deposit to the Mary Bird Perkins Cancer Center at St Tammany Parish Hospital Fund

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

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

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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 Members of the Board of Commissioners
St Tammany Parish Hospital Service District No 1
St Tammany Parish, Louisiana

We have audited the consolidated basic financial statements of St Tammany Parish Hospital Service District No 1 of St Tammany Parish, Louisiana (St Tammany Parish Hospital), as of and for the year ended December 31, 2011, and have issued our report thereon dated April 20, 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

Management of St Tammany Parish Hospital is responsible for establishing and maintaining effective internal control over financial reporting In planning and performing our audit, we considered St Tammany Parish Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the St Tammany Parish Hospital's internal control over financial reporting Accordingly, we do not express an opinion on the effectiveness of St Tammany Parish Hospital'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 a reasonable possibility that a material misstatement of the Hospital's 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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether St Tammany Parish Hospital's consolidated basic 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2011-1

St Tammany Parish Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings and response We did not audit St Tammany Parish Hospital's response and, accordingly, we express no opinion on it

This report is intended solely for the information and use of management, the Board of Commissioners, and State of Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties Under the Louisiana Revised Statute 24 513, this report is distributed by the Legislative Auditor of the State of Louisiana as a public document

LaPorte

A Professional Accounting Corporation

Metairie, Louisiana
April 20, 2012

A FINDINGS FINANCIAL STATEMENT AUDIT - 2011 FISCAL YEAR END

2011-01 Compliance with Public Bid Law

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

Recommendation Management should identify all requirements related to procurements under the Public Bid Law and establish a written policy manual that incorporates the State requirements This policy should address how the Hospital will ensure the implementation of adequate controls to comply with the applicable State requirements, as well as delineate procedures for documentation of contract files including the significant procurement history such as (1) the advertising and bidding information, (2) contractor selection or rejection, and (3) a written confirmation of the accepted offer This manual should be updated annually to reflect any change in the law

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