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

SLIDELL MEMORIAL HOSPITAL

Consolidated Financial Statements
December 31, 2007 and 2006

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 6/11/08

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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, 2007. This should be read in conjunction with the financial statements in this report.

Hurricane Katrina - 2007 Still The Aftermath

The western eye of Hurricane Katrina passed over Slidell, Louisiana on the morning of Monday, August 29, 2005. In the post Katrina environment, hospitals in the region are challenged by a number of factors including increases in uninsured patients, higher wages associated with workforce shortages and physician shortages. An additional challenge to profitability was the opening of the new physician owned specialty hospital: Southern Surgical Hospital. Most of SMH's orthopedic surgeons and one neurosurgeon are owners in the new facility and, as a result, practically 100% of their surgeries went to the new facility.

Management focused heavily on non-traditional revenue sources during 2007. The results of those efforts were \$4.4 million from a State uncompensated care program, \$2.1 million from a Federal wage index stabilization program, \$1.4 million from the Hospital's insurance carrier to finalize the Hurricane Katrina related claim, and a \$600,000 grant for operation of the Hospital's Pediatric Clinic and WIC program. Perhaps most significant of all, 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 20 year property tax designated to build and equip a state of the art full service regional cancer center at Slidell Memorial Hospital in order to expand the comprehensive nature of our cancer program.

MD Imaging was operated for its first full year as part of SMH after being acquired in May of 2006. Outpatient imaging volumes grew 15.7% overall from 2006 to 2007. To position the facility for continued growth, SMH invested in an additional wide-bore MRI and digital mammography system during 2007.

In addition, SMH was recognized for notable achievements during 2007. HealthGrades recognized SMH as Top 5% Nationally in Patient Safety for the second year in a row. Press Ganey recognized the Hospital for performing in the Top 16% Nationally in Patient Satisfaction.

Financial Highlights

Net patient service revenue increased \$11.5 million or 9.9% from prior year. Operating expenses before depreciation and amortization increased \$11.2 million or 10.5%.

The Hospital's total net assets increased by \$10.9 million or 8.6%, from the prior year. The assets of the Hospital exceeded liabilities at the close of the 2007 fiscal year by \$62.7 million. Of this amount, \$42.6 million (unrestricted net assets) may be used to meet ongoing obligations to the Hospital District's patients and creditors, and \$16.2 million is invested in capital assets, net of related debt.

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Management's Discussion and Analysis

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 Balance Sheet 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 schedules showing Gross revenue and Expenses by Cost center as well as statistical information.

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.

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Management's Discussion and Analysis

Net Assets

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

**Condensed Consolidated Statement of Net Assets
(In Thousands)**

| | Fiscal Year 2007 | Fiscal Year 2006 | Dollar Change | Total % Change |
|-------------------------------------------------|---------------------|---------------------|-------------------|-------------------|
| Current and other assets | \$ 85,949 | \$ 81,802 | \$ 4,147 | 5 % |
| Capital assets | 52,179 | 51,452 | 727 | 1 % |
| Total assets | \$ 138,128 | \$ 133,254 | \$ 4,874 | 4 % |
| Long-term debt outstanding | \$ 56,816 | \$ 60,189 | \$ (3,373) | (6) % |
| Other liabilities | 18,657 | 21,314 | (2,657) | (12) % |
| Total liabilities | \$ 75,473 | \$ 81,503 | \$ (6,030) | (7) % |
| Invested in capital assets, net of related debt | \$ 16,229 | \$ 14,623 | \$ 1,606 | 11 % |
| Restricted | 3,871 | 3,652 | 219 | 6 % |
| Unrestricted | 42,555 | 33,476 | 9,079 | 27 % |
| Total net assets | \$ 62,655 | \$ 51,751 | \$ 10,904 | 21 % |

Current and other assets increased 5% primarily associated with operating cash flow and non-traditional revenue source procurement. Capital assets increased 1% reflecting the net effect of investing \$8.6 million in new capital assets less depreciation of \$7.9 million on existing capital assets. Long term debt decreased 6% reflecting payments on schedule. Other liabilities decreased 12%. Unrestricted net assets increased \$9.1 million or 27%.

St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)

Management's Discussion and Analysis

Summary of Revenues, Expenses, and Changes in Net Assets

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended December 31, 2007 and 2006:

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

| | Fiscal Year 2007 | Fiscal Year 2006 |
|---------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| Net patient service revenue | \$ 128,187 | \$ 116,656 |
| Other operating revenue excluding interest income | 3,998 | 2,641 |
| Total operating revenues | 132,185 | 119,297 |
| Operating expenses before depreciation/amortization | 117,314 | 106,129 |
| Earnings before interest depreciation and amortization and non-operating revenues (expenses) (EBIDA) | 14,871 | 13,168 |
| Depreciation and amortization expense | 8,119 | 6,729 |
| Operating net income | 6,752 | 6,439 |
| Non-operating revenues (expenses): | | |
| Interest income | 2,678 | 1,955 |
| Interest expense | (2,358) | (2,212) |
| Property tax revenue | 2,398 | 2,411 |
| Insurance proceeds and other | 1,434 | 1,444 |
| Revenues in excess of expenses | 10,904 | 10,037 |
| Total net assets - beginning of year | 51,751 | 41,714 |
| Total net assets -end of year | \$ 62,655 | \$ 51,751 |

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Management's Discussion and Analysis

The following table represents the relative percentage of gross charges billed for patient services by payer for the fiscal years ended December 31, 2007 and 2006:

| | Fiscal Year 2007 | Fiscal Year 2006 |
|---------------------------------------|-----------------------------|-----------------------------|
| Medicare | 35.5 % | 36.4 % |
| Medicaid | 10.3 % | 8.4 % |
| Managed care and commercial insurance | 48.7 % | 48.1 % |
| Uninsured | 5.5 % | 7.1 % |
| Total gross charges | 100.0 % | 100.0 % |

Operating and Financial Performance

The following summarizes the Hospital's Statements of Revenues, Expenses, and Changes in Net Assets between 2007 and 2006:

- During 2007, the Hospital had 8,408 acute inpatient admissions. This is an increase of 1.5% from fiscal year 2006.
- Outpatient registrations were 64,478 in 2007. This is an increase of 2.8% from fiscal year 2006.
- Emergency registrations were 28,413 in 2006. This is an increase of 5.5% compared to fiscal year 2006.
- Net patient service revenue increased \$11.5 million or 9.9% from prior year.
- Salaries wages and benefits increased 13.6% from prior year reflecting staff growth to service volume increases as well as the average hourly wage rate pressure throughout the greater New Orleans market since the storm due to lack of adequate health care workers.
- Supplies and materials increased approximately 2.0% from prior year.
- Other Direct expenses increase \$1.8 million from 2006 to 2007 including \$0.4 million for temporary rental of a mobile MRI during construction for a new unit at MD Imaging, \$0.3 million in amortization of physician recruitment loans, \$0.3 million in maintenance agreements for MD imaging, \$0.3 million for maintenance agreements for information technology in the hospital, \$0.3 million increase in utility costs, and \$0.2 million increased investment in operating room instruments.

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Management's Discussion and Analysis

- Professional Fees increased \$1.2 million associated primarily with full-year ownership of MD Imaging which operates as a wholly owned freestanding imaging center using a global billing method. Under global billing, the Hospital bills and collects for both the technical and professional component of the service. The Hospital pays the Radiologists for the professional component of the service based on the volume of each CPT code performed. This portion of the increase was \$0.9 million. In an effort to improve emergency room performance, the Board of Commissioners increased payments to the ER physician group by \$0.2 million in 2007.
- Purchased Services increased \$0.2 million.

Performance Against Budget

| | FY 2007 Budget | FY 2007 Actual | Favorable (Unfavorable) Variance |
|-------------------------------------------------------------------------------------------------------------|-------------------|-------------------|----------------------------------------|
| Revenues: | | | |
| Net patient service revenue | \$ 124,914 | \$ 128,187 | \$ 3,273 |
| Other operating revenue | 2,379 | 3,998 | 1,619 |
| Total operating revenues | 127,293 | 132,185 | 4,892 |
| Operating expenses: | | | |
| Salaries, wages and benefits | 60,798 | 62,049 | (1,251) |
| Supplies and other | 40,285 | 40,218 | 67 |
| Professional and contractual services | 14,219 | 15,047 | (828) |
| Total operating expenses before depreciation/ amortization and non-operating revenues (expenses) | 115,302 | 117,314 | (2,012) |
| EBIDA | 11,991 | 14,871 | 2,880 |
| Interest income | 2,200 | 2,678 | 478 |
| Interest expense | (1,670) | (2,358) | (688) |
| Depreciation and amortization | (6,839) | (8,119) | (1,280) |
| Non-operating revenue, net | 1,800 | 3,832 | 2,032 |
| Excess of revenues over expenses | 7,482 | 10,904 | 3,422 |
| Increase in net assets | \$ 7,482 | \$ 10,904 | \$ 3,422 |

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Management's Discussion and Analysis

Capital Assets

| | Fiscal Year 2007 | Fiscal Year 2006 | Dollar Change | Percent Change |
|-------------------------------------|-----------------------------|-----------------------------|--------------------------|---------------------------|
| Land and land improvements | \$ 5,864 | \$ 5,864 | \$ - | - % |
| Building and leasehold improvements | 68,699 | 68,135 | 564 | 1 % |
| Equipment | 52,789 | 47,714 | 5,075 | 11 % |
| Subtotal | 127,352 | 121,713 | 5,639 | 5 % |
| Less: Accumulated depreciation | (75,173) | (70,261) | (4,912) | 7 % |
| Net capital assets | \$ 52,179 | \$ 51,452 | \$ 727 | 1 % |

Economic Factors and Next Year's Budget

The Hospital's Board and Management considered many factors when setting the fiscal year 2008 budget. Of primary importance in setting the 2008 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Physician coverage of emergency room unreferral call. Physicians can choose to work at specialty facilities with no ER. Improved lifestyle with an equal or better income is hard to compete with as a general acute care community hospital where ER call is a requirement of active staff membership.
- General weakness in the broad economy signaling changes in employment, employment related benefits, and ultimately managed care tightness on utilization and rates.
- Medicare payment reductions including a wage index factor reduction valued at approximately \$500,000 for 2008.
- Medicare payment conversion to MS-DRG with a three year phase in and behavioral offset that limited the SMH market basket payment increase to only 1.3% in 2008.
- Growing utilization of costly technology without adequate reimbursement.
- Cost of drugs such as chemotherapy agents without adequate reimbursement.
- Access to free cash flow for needed replacement investment.
- Increased compliance costs due to 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.



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, 2007, 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 an opinion on these consolidated financial statements based on our audit. The financial statements of St. Tammany Parish Hospital Service District No. 2 for the year ended December 31, 2006, were audited by other auditors whose report dated April 13, 2007 expressed an unqualified opinion on those statements.

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 2007 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Slidell Memorial Hospital as of December 31, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2008, 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 vii is not a required part of the consolidated basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Robert J. Smith".

A Professional Accounting Corporation

April 10, 2008

St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)

Consolidated Balance Sheets
December 31, 2007 and 2006

| | 2007 | 2006 |
|------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| Assets | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 53,856,103 | \$ 45,857,563 |
| Patient Accounts Receivables, Net of Allowances for Uncollectible Accounts of \$5,706,742 and \$8,243,741 in 2007 and 2006, Respectively | 15,760,271 | 17,991,059 |
| Assets Whose Use is Limited, Required for Current Liabilities | 1,741,794 | 1,711,529 |
| Inventories | 3,569,516 | 2,450,832 |
| Prepaid Expenses and Other Receivables | 3,490,522 | 3,589,878 |
| Total Current Assets | 78,418,206 | 71,600,861 |
| Assets Whose Use is Limited or Restricted | | |
| By Board or Under Agreements for Capital Improvements and Debt Service | 6,223,768 | 8,568,693 |
| By Donors | 45,213 | 39,538 |
| By Board Designated for Workers' Compensation Claims | 350,000 | 350,000 |
| Total Assets Whose Use is Limited or Restricted | 6,618,981 | 8,958,231 |
| Capital Assets | | |
| Land and Improvements | 5,864,205 | 5,864,205 |
| Buildings | 68,698,770 | 68,135,455 |
| Equipment | 52,789,149 | 47,713,551 |
| | 127,352,124 | 121,713,211 |
| Less Accumulated Depreciation | (75,172,632) | (70,260,738) |
| Capital Assets, Net | 52,179,492 | 51,452,473 |
| Other Assets | 910,880 | 1,242,351 |
| Total Assets | \$ 138,127,559 | \$ 133,253,916 |

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

| | 2007 | 2006 |
|------------------------------------------------------------------------|-----------------------|-----------------------|
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Trade Accounts Payable | \$ 5,953,263 | \$ 8,320,243 |
| Salaries, Wages and Benefits Payable | 2,573,879 | 2,305,158 |
| Accrued Vacation Payable | 2,706,475 | 2,386,164 |
| Accrued Interest and Other Expenses | 3,221,333 | 3,878,224 |
| Amounts Due to Third-Party Payors | 140,713 | 190,154 |
| Amounts Due Within One Year on Capital Lease Obligations | 2,176,398 | 2,428,582 |
| Amounts Due Within One Year on Bonds Payable | 820,000 | 780,000 |
| Amounts Due Within One Year on Notes Payable and Hospital Indebtedness | 1,065,000 | 1,025,000 |
| Total Current Liabilities | 18,657,061 | 21,313,525 |
| Capital Lease Obligations, Less Amounts Due Within One Year | 4,949,317 | 7,112,743 |
| Bonds, Less Amounts Due Within One Year | 19,605,000 | 20,425,000 |
| Notes Payable, Less Amounts Due Within One Year | 7,675,000 | 8,740,000 |
| Community Disaster Loan, including Accrued Interest | 24,586,380 | 23,911,513 |
| Commitments and Contingencies (Notes 6, 7 and 9) | | |
| Total Liabilities | 75,472,758 | 81,502,781 |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | 16,228,777 | 14,623,166 |
| Restricted for Debt Service and Workers' Compensation | 3,870,910 | 3,651,516 |
| Unrestricted | 42,555,114 | 33,476,453 |
| Total Net Assets | 62,654,801 | 51,751,135 |
| Total Liabilities and Net Assets | \$ 138,127,559 | \$ 133,253,916 |

The accompanying notes are an integral part of these 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, 2007 and 2006**

| | 2007 | 2006 |
|------------------------------------------|----------------------|----------------------|
| Revenues | | |
| Net Patient Service Revenue | \$ 128,187,063 | \$ 116,656,268 |
| Other Revenue | 3,998,088 | 2,640,512 |
| Total Revenues | 132,185,151 | 119,296,780 |
| Operating Expenses | | |
| Salaries and Wages | 51,874,065 | 44,857,367 |
| Employee Benefits | 10,175,293 | 9,786,589 |
| Supplies and Materials | 24,590,044 | 24,113,043 |
| Other Direct Expenses | 15,628,093 | 13,780,243 |
| Professional Fees | 9,950,587 | 8,724,819 |
| Purchased Services | 5,096,732 | 4,866,478 |
| Depreciation and Amortization | 8,118,765 | 6,729,124 |
| Total Operating Expenses | 125,433,579 | 112,857,663 |
| Operating Income | 6,751,572 | 6,439,117 |
| Non-Operating Revenues (Expenses) | | |
| Interest Income | 2,677,583 | 1,955,299 |
| Interest Expense | (2,357,552) | (2,212,056) |
| Property Tax Revenue | 2,397,942 | 2,411,453 |
| Insurance Proceeds | 1,434,604 | 1,760,000 |
| Other | (483) | (316,898) |
| Total Non-Operating Revenues, Net | 4,152,094 | 3,597,798 |
| Increase in Net Assets | 10,903,666 | 10,036,915 |
| Net Assets, Beginning of Year | 51,751,135 | 41,714,220 |
| Net Assets, End of Year | \$ 62,654,801 | \$ 51,751,135 |

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

St. Tammany Parish Hospital Service District No. 2
(d/b/a Siidell Memorial Hospital)

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2007 and 2006

| | 2007 | 2006 |
|------------------------------------------------------------------------------------|----------------------|----------------------|
| Cash Flows from Operating Activities | | |
| Cash Received from Patient Services | \$ 128,105,537 | \$ 108,496,297 |
| Cash Paid to or on Behalf of Employees | (61,475,326) | (53,333,875) |
| Cash Paid for Supplies and Services | (59,197,523) | (45,661,332) |
| Cash Received from FEMA and Other Federal and State Programs | <u>6,728,367</u> | <u>6,448,615</u> |
| Net Cash Provided by Operating Activities | <u>14,161,055</u> | <u>15,949,705</u> |
| Cash Flows from Non-Capital Financing Activities | | |
| Cash Received from Insurance | 934,604 | 1,760,000 |
| Other Non-Operating Expenses | <u>(483)</u> | <u>(316,898)</u> |
| Net Cash Provided by Non-Capital Financing Activities | <u>934,121</u> | <u>1,443,102</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Purchase of Capital Assets | (8,581,333) | (6,369,311) |
| Principal Payments on Long-Term Debt and Capital Lease Obligations | (4,220,610) | (3,834,005) |
| Dedicated Property Tax Revenue Received | 2,084,226 | 1,941,453 |
| Proceeds from Issuance of Promissory Notes | - | 23,503,926 |
| Interest Payments | (1,690,610) | (1,818,915) |
| Proceeds from Sale of Capital Assets | <u>9,323</u> | <u>13,564</u> |
| Net Cash (Used in) Provided by Capital and Related Financing Activities | <u>(12,399,004)</u> | <u>13,436,712</u> |
| Cash Flows from Investing Activities | | |
| Decrease (Increase) in Assets Whose Use is Limited or Restricted | 2,622,701 | 5,713,798 |
| Acquisition of MD Imaging | - | (3,702,527) |
| Interest Earned on Investments | <u>2,679,667</u> | <u>1,955,299</u> |
| Net Cash Provided by Investing Activities | <u>5,302,368</u> | <u>3,966,570</u> |
| Increase in Cash and Cash Equivalents | <u>7,998,540</u> | <u>34,796,089</u> |
| Cash and Cash Equivalents, Beginning of Year | <u>45,857,563</u> | <u>11,061,474</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 53,856,103</u> | <u>\$ 45,857,563</u> |

The accompanying notes are an integral part of these 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, 2007 and 2006

| | 2007 | 2006 |
|-------------------------------------------------------------------|----------------------|----------------------|
| Reconciliation of Operating Income to Net Cash | | |
| Provided by Operating Activities | | |
| Operating Income | \$ 6,751,572 | \$ 6,439,117 |
| Adjustments to Reconciliation Operating Income to Net Cash | | |
| Provided by Operating Activities | | |
| Depreciation and Amortization | 8,118,765 | 6,729,124 |
| Loss on Disposal of Capital Assets | 57,698 | 166,879 |
| Changes in Operating Assets and Liabilities | | |
| Patient Accounts Receivable | 2,230,788 | (976,207) |
| Inventories and Other Operating Assets | (521,413) | (795,967) |
| Accounts Payable and Accrued Expenses | (2,476,355) | 4,386,759 |
| Net Cash Provided by Operating Activities | \$ 14,161,055 | \$ 15,949,705 |

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

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies

Organization

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

Slidell Memorial Hospital (the Hospital) is a nonprofit corporation organized as St. Tammany Parish Hospital Service District No. 2 (the District), a political subdivision of the state of Louisiana as established in Act 180 of the 1984 Regular Session of the Legislature, as amended, and is exempt from federal and state income taxes. The governing authority of the District is the St. Tammany Parish Hospital Service 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 Health Foundation, Inc. and its successor, **Slidell Memorial Hospital Foundation, Inc.** are collectively herein referred to as **the Foundation**. The Foundation is comprised of Louisiana non-profit corporations exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The Foundation is owned and 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 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 and operated by the District and is a taxable non-profit corporation.

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

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

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

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.

Net Patient Service Revenue and Related Receivables

Net Patient service revenue and the related accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. The Organization provides care to patients even though they may lack adequate insurance or may be covered under contractual arrangements that do not pay full charges. As a result, the Organization is exposed to certain credit risks. The Organization manages such risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances. Provisions for bad debts are reported as offsets to net patient service revenues consistent with reporting practices for governmental entities.

Medicare and Medicaid Reimbursement Programs

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

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 86.2% of the lower of cost or charges. Medicare and Medicaid outpatient clinical lab and Medicaid ambulatory surgery and outpatient therapy services are reimbursed based upon the respective fee schedules.

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Medicare and Medicaid Reimbursement Programs (Continued)

Retroactive cost settlements based upon annual cost reports are estimate 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.

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, 2007 and 2006, 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.

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.

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 of the assets at 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.

Other Assets

Other assets consist of the unamortized portion of debt issuance costs and also includes costs in excess of net assets acquired relating to 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 \$40,944 and \$28,958 at December 31, 2007 and 2006, respectively.

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Other Assets (Continued)

Cost in excess of net assets acquired, or goodwill, of approximately \$1,278,000 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 is being amortized by the straight-line method over four years. Accumulated amortization was approximately \$519,161 and \$199,677 at December 31, 2007 and 2006, 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 2007 and 2006.

Employee Health and Workers' Compensation Insurance

The Organization is self-insured for hospitalization and workers' compensation claims. Estimated amounts for claims incurred but not reported are calculated based on claims experience and, together with unpaid claims, are included in accrued interest and other expenses on the consolidated balance sheets.

Statements of Revenues, Expenses, and Changes in Net Assets

All revenues and expenses directly related to the delivery of health care services are included in operating revenues and expenses in the consolidated statements of revenues, expenses, and changes in net assets. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or investment income.

Property Tax Revenues

As a result of a voter referendum in 2003, the Hospital began receiving dedicated property tax revenues in 2004 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 and are exclusive for governmental debt service.

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Notes to Consolidated Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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."

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Notes to Consolidated Financial Statements

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 and funds designated by the Board for capital improvements as of December 31, 2007 and 2006, were as follows:

| | <u>2007</u> | <u>2006</u> |
|----------------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| Current Assets, Under Bond Indenture | | |
| Dedicated Property Tax Revenue | <u>\$ 1,741,794</u> | <u>\$ 1,711,529</u> |
| Total | <u><u>\$ 1,741,794</u></u> | <u><u>\$ 1,711,529</u></u> |
| Non-Current Assets, Under Bond Indenture | | |
| Dedicated Property Tax Revenue | <u>\$ 2,232,832</u> | <u>\$ 1,589,987</u> |
| Funds Held for Facility Improvements | - | 3,172,002 |
| Equipment Acquisition Funds Related to Municipal Leases By Board, Designated for Capital Improvements | - | 15 |
| By Board, Designated for Workers' Compensation Claims | <u>3,990,936</u> | <u>3,806,689</u> |
| By Donors | <u>350,000</u> | <u>350,000</u> |
| | <u>45,213</u> | <u>39,538</u> |
| Total | <u><u>\$ 6,618,981</u></u> | <u><u>\$ 8,958,231</u></u> |

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). At December 31, 2007, the Organization had investments in obligations of U.S. Agencies with a fair value of \$2,683,635. Such obligations mature between March 2008 and July 2008 and carry a "AAA" credit rating from the applicable rating agencies. The Organization manages the interest rate risk in the portfolio by keeping maturities under five years and adhering to the State's credit quality restrictions. Also included in assets whose use is limited is \$3,423,424 of cash deposits and money market investments, which 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 for other operating purposes those funds designated for capital improvements. Management has continued to maintain these funds in a separate trust account and treat them as internally designated funds.

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Notes to Consolidated Financial Statements

Note 3. Third-Party Payor Arrangements

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. During the years ended December 31, 2007 and 2006, approximately 46% and 45%, respectively, of the Hospital's gross patient service charges were derived from services provided to Medicare and Medicaid program beneficiaries. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Revenue derived from the Medicare program is subject to audit and adjustment by the fiscal intermediary and must be accepted by the United States Department of Health and Human Services before settlement amounts become final. Revenue derived from the Medicaid program is subject to audit and adjustment and must be accepted by the State of Louisiana, Department of Health and Hospitals before the settlement amount becomes final. The fiscal intermediary has completed its review of estimated Medicare settlements for fiscal years ended through December 31, 2006, and Medicaid settlements for fiscal years ended through December 31, 2004. 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 for Medicare and December 31, 2005 through December 31, 2007, for Medicaid, the Hospital does not anticipate significant adverse adjustments to the recorded settlements for those years.

Also, the Hospital received additional funding totaling \$4,478,415 and \$4,438,300 for 2007 and 2006, respectively, from certain federal and state programs for reimbursement of uncompensated care which amount is recorded in 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.

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Notes to Consolidated Financial Statements

Note 4. Net Patient Service Revenue

Net patient service revenue for the years ended December 31, 2007 and 2006, was as follows:

| | 2007 | 2006 |
|-------------------------------|-----------------------|-----------------------|
| Gross Patient Service Revenue | | |
| Medicare | \$ 165,962,787 | \$ 157,551,660 |
| Medicaid | 48,160,859 | 39,597,685 |
| Managed Care/Commercial | 228,674,131 | 208,665,593 |
| Self Pay/Uninsured | 25,615,609 | 27,332,747 |
| Total | 468,413,386 | 433,147,685 |
| Contractual Adjustments | (314,728,584) | (293,947,825) |
| Charity Care | (8,024,288) | (9,142,397) |
| Provisions for Bad Debts | (17,473,451) | (13,401,195) |
| Total | \$ 128,187,063 | \$ 116,656,268 |

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. Charity care provided during the years ended December 31, 2007 and 2006, measured at established rates, totaled \$8,024,289 and \$9,142,397, respectively. Government subsidies received in 2007 and 2006 totaled \$4,478,415 and \$4,438,300, respectively (see Note 3).

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. The Hospital has conducted a Community Health Assessment to identify health risks in the community. Through this research, the Hospital has developed wellness and prevention programs that target these high-risk area for a healthier community.

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Notes to Consolidated Financial Statements

Note 5. Community Benefits (Continued)

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 fund-raising activities and, in some cases, pays employees to perform public services such as health screenings. In addition, the Hospital aided various community service organizations through donations and sponsorships.

Note 6. Leases

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 \$2,203,640 and \$1,545,801 for the years ended December 31, 2007 and 2006, respectively.

The Hospital also leases medical equipment under lease agreements accounted for as capital lease obligations in accordance with Financial Accounting Standards Board Statement No. 13, *Accounting for Leases*. 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 \$12,399,363 and \$14,628,111, less accumulated amortization of \$5,166,204 and \$5,110,099 at December 31, 2007 and 2006, respectively. In 2006, the Hospital expended approximately \$1,015,000 in equipment acquisition funds that had been set aside in assets whose use is limited or restricted related to Louisiana municipal leases negotiated in late 2005 but previously unfunded. Such municipal leases are included in the capital leases set forth below. During 2006, the hospital acquired equipment under capital lease obligations with a book value of \$2,975,112 in connection with the purchase of MD Imaging.

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Notes to Consolidated Financial Statements

Note 6. Leases (Continued)

The future minimum lease payments at December 31, 2007, for noncancelable leases are as follows:

| | Operating Leases | Capital Leases |
|--------------|-----------------------------|---------------------------|
| 2008 | \$ 1,005,156 | \$ 2,440,690 |
| 2009 | 954,348 | 2,007,389 |
| 2010 | 859,662 | 1,728,948 |
| 2011 | 584,678 | 1,278,413 |
| 2012 | 526,832 | 250,289 |
| Total | <u>\$ 3,930,676</u> | 7,705,729 |

Amounts Representing Imputed Interest (Interest Rates Range from 4.00% to 5.17%)

580,014

Present Value of Capital Lease Obligations (Including \$2,176,398 Classified as Amounts Due Within One Year)

\$ 7,125,715

The Hospital leases space to physicians through a combination of cancelable and noncancelable lease agreements. Rental income earned under these agreements was \$1,942,198 and \$1,694,960 for the years ended December 31, 2007 and 2006, respectively.

The future minimum lease payments to be received from noncancelable lease agreements at December 31, 2007, are as follows:

| | Operating Leases |
|--------------|-----------------------------|
| 2008 | \$ 1,479,998 |
| 2009 | 1,097,106 |
| 2010 | 741,033 |
| 2011 | 262,152 |
| 2012 | 60,484 |
| Thereafter | <u>-</u> |
| Total | <u>\$ 3,640,773</u> |

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt

The details and balances of long-term debt at December 31, 2007 and 2006, are presented below:

| | 2007 | 2006 |
|------------------------------------------------------------------------------------------------|----------------------|----------------------|
| General Obligation Bonds, Series 2004A, Described in Detail Below (\$315,000 Due in 2008) | \$ 7,395,000 | \$ 7,695,000 |
| General Obligation Bonds, Series 2004B, Described in Detail Below (\$465,000 Due in 2008) | 11,920,000 | 12,365,000 |
| General Obligation Bonds, Series 2004C, Described in Detail Below (\$40,000 Due in 2008) | 1,110,000 | 1,145,000 |
| Hospital Indebtedness, Series 2005, Described in Detail Below (\$895,000 Due in 2008) | 8,400,000 | 9,255,000 |
| Community Disaster Loan, Including Accrued Interest Described in Detail Below (Due in 2011) | 24,586,380 | 23,911,513 |
| Notes Payable to Physicians, 7% (\$170,000 Due in 2008) | 340,000 | 510,000 |
| | <u>53,751,380</u> | <u>54,881,513</u> |
| Less Amounts Due Within One Year According to Terms of Debt Instruments | 1,885,000 | 1,805,000 |
| Total | <u>\$ 51,866,380</u> | <u>\$ 53,076,513</u> |

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt (Continued)

The following table for the year ended December 31, 2007, summarizes the changes in long-term debt:

| | 2007 | 2006 |
|-------------------------------------------------------|----------------------|----------------------|
| Balance of Long-term Debt at December 31, 2006 | \$ 54,881,513 | \$ 32,635,000 |
| Less Repayment of Bonds and Notes Payable | (1,805,000) | (1,665,000) |
| Add Issuance of Hospital Indebtedness Obligations | - | 23,503,926 |
| Add Long-Term Accrued Interest on CDL Loan | 674,867 | 407,587 |
| Balance of Long-Term Debt at December 31, 2007 | \$ 53,751,380 | \$ 54,881,513 |

Refinancing

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, which would be secured by the pledge of dedicated property tax millages set annually at rates sufficient to fund principal maturities and interest on the related bonds. The Hospital issued three series of general obligation bonds in 2004 to refinance the balances of 1994, 1996, and 1999 revenue bonds.

General Obligation 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.

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt (Continued)

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

On July 29, 2004, the Hospital issued \$1.205 million in General Obligation Bonds with interest rates ranging from 5.8% to 8% to advance refund \$2.2 million of outstanding 1999 Revenue Bonds. The net proceeds of \$1.2 million (after payment of underwriting fees, insurance, and other issuance costs) plus an additional \$1 million of existing debt service reserve monies were deposited in an irrevocable trust with an escrow agent to provide for the advance refunding on July 29, 2004.

Interest on the general obligation bonds is payable semi-annually on March 1 and September 1 each year. The bonds mature in annual installments on March 1 each year until 2024. The bonds can be called for early redemption after March 1, 2014.

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.

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt (Continued)

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 are due in five years from the date of issuance at varying dates in fiscal 2011. 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. Under certain circumstances, as stipulated in the Stafford Disaster Relief and Emergency Act, these notes and related accrued interest may be forgiven. Interest expense related to these loans was \$674,867 and \$407,587 for the years ended December 31, 2007 and 2006, respectively. There were no repayments of principal or interest during 2007 or 2006.

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 |
|----------------------------|----------------------|----------------------|
| 2008 | \$ 1,885,000 | \$ 1,239,330 |
| 2009 | 1,965,000 | 1,164,190 |
| 2010 | 1,890,000 | 1,086,378 |
| 2011 | 26,556,380 | 3,296,532 |
| 2012 | 2,070,000 | 920,243 |
| 2013-2017 | 9,255,000 | 3,296,402 |
| 2018-2022 | 7,330,000 | 1,585,089 |
| 2023-2027 | 2,800,000 | 126,735 |
| Total | \$ 53,751,380 | \$ 12,714,899 |

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 of 2002. Beginning in April of 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.

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Notes to Consolidated Financial Statements

Note 8. Employee Benefits (Continued)

The new pension plan provides a discretionary employer match of employee contribution (up to 4% beginning January 1, 2006 and up to 8% prior to that date) rather than contributions based on salaries. Employees are eligible to participate at their date of hire. Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the Hospital's contribution is based on years of service. The following vesting schedule is in effect:

| Years of Vesting Service | Percent Vested |
|-------------------------------------|---------------------------|
| 1 | 20 % |
| 2 | 40 |
| 3 | 60 |
| 4 | 80 |
| 5 | 100 |

The total payroll for the years ended December 31, 2007 and 2006, was \$51,874,065 and \$44,857,367, respectively. During the years ended December 31, 2007 and 2006, the Hospital and member organizations made required contributions to the Plan of \$1,263,034 and \$1,110,771, respectively.

Note 9. Risk Management

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. The Hospital participates in the Louisiana Hospital Association Trust Fund (LHA Trust Fund) and the Louisiana Patients' Compensation Fund (Compensation Fund) for insurance coverage on 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 LHA Trust Fund provides malpractice coverage for claims up to \$100,000 and the Compensation Fund provides an additional \$400,000 of coverage. These funds provide the Hospital with malpractice coverage on an occurrence basis up to the \$500,000 statutory limitation. Hospital management has no reason to believe that the Hospital will be prevented from continuing its participation in the Fund. LHA Trust Fund insures general liability up to \$1,000,000 per claim. LHA Trust Fund insures excess general liability claims in excess of \$1,000,000 but limited to \$9,500,000 per claim. At December 31, 2007, there were no malpractice accruals, and the Hospital is fully insured based on the statutory limits. Additional claims may be asserted against the Hospital arising from services provided to patients through December 31, 2007, exceeding these coverage limits. The Hospital is unable to determine the ultimate cost of the resolution of such potential claims and, accordingly, no accrual has been made for them.

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Notes to Consolidated Financial Statements

Note 9. Risk Management (Continued)

The Hospital is self-insured for workers' compensation up to \$300,000 per claim, and employee health up to \$120,000 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 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.

Changes in the Hospital's aggregate claims liability for workers' compensation and employee health, which are included in accrued interest and other expenses on the accompanying balance sheets, for the years ended December 31, 2007 and 2006, were as follows:

| Years Ended December 31 | Beginning of Year Liability | Current Year Claims and Changes in Estimates | Claim Payments | Balance at Year End |
|------------------------------------|--------------------------------------------|-----------------------------------------------------------------|---------------------------|--------------------------------|
| 2007 | \$ 806,577 | \$ 5,713,975 | \$ 5,848,460 | \$ 672,092 |
| 2006 | 673,993 | 5,812,402 | 5,679,818 | 806,577 |

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 net of contractual allowances at December 31, 2007 and 2006, was as follows:

| | 2007 | 2006 |
|----------------------------------|--------------|--------------|
| Medicare | 13 % | 15 % |
| Medicaid | 2 | 2 |
| Managed Care and Other Payors | 48 | 36 |
| Patients | 37 | 47 |
| Total | 100 % | 100 % |

St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)

Notes to Consolidated Financial Statements

Note 11. Changes in Capital Assets

Capital asset activity for the fiscal year ended December 31, 2007, was as follows:

| | Balance December 31, 2006 | Additions | Deletions | Balance December 31, 2007 |
|---------------------------------------------------|---------------------------------|-------------------|--------------------|---------------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 4,787,713 | \$ - | \$ - | \$ 4,787,713 |
| Construction in Process | - | - | - | - |
| Total Capital Assets Not Being Depreciated | 4,787,713 | - | - | 4,787,713 |
| Capital Assets Being Depreciated | | | | |
| Land Improvements | 1,076,492 | | | 1,076,492 |
| Buildings | 68,135,455 | 563,315 | | 68,698,770 |
| Equipment | 47,713,551 | 8,018,018 | (2,942,420) | 52,789,149 |
| Total Capital Assets Being Depreciated | 116,925,498 | 8,581,333 | (2,942,420) | 122,564,411 |
| Less Accumulated Depreciation for: | | | | |
| Land Improvements | 913,468 | 27,754 | - | 941,222 |
| Buildings | 38,480,265 | 2,768,380 | - | 41,248,645 |
| Equipment | 30,867,005 | 4,997,803 | (2,882,043) | 32,982,765 |
| Total Accumulated Depreciation | 70,260,738 | 7,793,937 | (2,882,043) | 75,172,632 |
| Capital Assets Being Depreciated, Net | 46,664,760 | 787,396 | (60,377) | 47,391,779 |
| Total | \$ 51,452,473 | \$ 787,396 | \$ (60,377) | \$ 52,179,492 |

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Notes to Consolidated Financial Statements

Note 11. Changes in Capital Assets (Continued)

Capital asset activity for the fiscal year ended December 31, 2006, was as follows:

| | Balance December 31, 2005 | Additions | Deletions | Balance December 31, 2006 |
|---------------------------------------------------|---------------------------------|---------------------|-----------------------|---------------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 3,597,713 | \$ 1,190,000 | \$ - | \$ 4,787,713 |
| Construction in Process | 1,349,805 | 2,487,257 | (3,837,062) | - |
| Total Capital Assets Not Being Depreciated | 4,947,518 | 3,677,257 | (3,837,062) | 4,787,713 |
| Capital Assets Being Depreciated | | | | |
| Land Improvements | 1,077,870 | - | (1,378) | 1,076,492 |
| Buildings | 62,639,030 | 5,877,258 | (380,833) | 68,135,455 |
| Equipment | 55,993,373 | 6,002,430 | (14,282,252) | 47,713,551 |
| Total Capital Assets Being Depreciated | 119,710,273 | 11,879,688 | (14,664,463) | 116,925,498 |
| Less Accumulated Depreciation for: | | | | |
| Land Improvements | 887,400 | 27,746 | (1,678) | 913,468 |
| Buildings | 35,994,298 | 2,693,059 | (207,092) | 38,480,265 |
| Equipment | 41,001,590 | 3,817,967 | (13,952,552) | 30,867,005 |
| Total Accumulated Depreciation | 77,883,288 | 6,538,772 | (14,161,322) | 70,260,738 |
| Capital Assets Being Depreciated, Net | 41,826,985 | 5,340,916 | (503,141) | 46,664,760 |
| Total | \$ 46,774,503 | \$ 9,018,173 | \$ (4,340,203) | \$ 51,452,473 |

Note 12. Hurricane Katrina Recovery

As does much of the Greater New Orleans metropolitan area, the Hospital continues to recover from the effects of Hurricane Katrina and. The Hospital's main campus hospital in Slidell sustained water and wind damage and curtailed operations until the damages could be mitigated and a safe environment could be established.

During 2005, the Hospital recorded a reduction in operating expenses of \$2,375,072 relating to funding received from the Federal Emergency Management Authority (FEMA) for reimbursement of expenses incurred due to the Hurricane. At December 31, 2005, the Hospital had received \$1,181,944 of these proceeds and had recorded a receivable of \$1,193,128. During 2006, the Hospital recorded additional expenses related to this receivable and received \$2,010,315 from FEMA. During the year ended December 31, 2007 the Hospital received an additional \$240,813 in funding from FEMA.

**St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)**

Notes to Consolidated Financial Statements

Note 12. Hurricane Katrina Recovery (Continued)

At December 31, 2007, the Hospital had a payable recorded to FEMA of \$250,000 for expenses that were also reimbursed by its insurer, which amount is included in accrued expenses.

The Hospital received additional funding from certain Federal and state programs to compensate the Hospital for the significant level of uncompensated care post-Katrina totaling (see Note 3). Also during 2007 and 2006, the Hospital reported \$1,434,604 and \$1,760,000, respectively, of non-operating revenue related to claims from its insurer for business interruption coverage. The total of \$3,194,604 represents the final settlement of these claims.



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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 Hospital) as of and for the year ended December 31, 2007, and have issued our report thereon dated April 10, 2008. 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 Hospital'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 Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Slidell Memorial Hospital'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*.

We noted certain matters that we reported to management of Slidell Memorial Hospital in a separate letter dated April 10, 2008.

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

A handwritten signature in cursive script, likely representing the firm's name, "Schlitz, Schmitz, Long & Neal".

A Professional Accounting Corporation

April 10, 2008



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of St. Tammany Parish Hospital Service District No. 2 (d/b/a Slidell Memorial Hospital) (the Hospital) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year then ended December 31, 2007. Slidell Memorial Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on Slidell Memorial Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Hospital's compliance with those requirements.

In our opinion, Slidell Memorial Hospital complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The management of Slidell Memorial Hospital is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs.

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In planning and performing our audit, we considered the Hospital's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Slidell Memorial Hospital's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Hospital's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Hospital's internal control.

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

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the consolidated basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated basic financial statements taken as a whole.

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



A Professional Accounting Corporation

April 10, 2008

St. Tammany Parish Hospital Service District No. 2
(d/b/a Slidell Memorial Hospital)

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2007

| Federal Grantor/Pass-Through Grantor Program Title | Federal CFDA Number | Expenditures |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-------------------|
| United States Department of Health & Human Services Passed through the Louisiana Department of Social Services Social Services Block Grant | 93.667 | \$ 406,116 * |
| United States Department of Agriculture Passed through the Louisiana Department of Health & Hospitals Nutrition Program for Women, Infants, and Children | 10.557 | <u>201,191</u> |
| | | <u>\$ 607,307</u> |

* Denotes Major Program

The schedule of expenditures of federal awards includes the federal grant activity of the Hospital and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**St. Tammany Parish Hospital District No. 2
(d/b/a Slidell Memorial Hospital)**

**Schedule of Findings and Questioned Costs
December 31, 2007**

Section 1 - Summary of Auditor's Results

Financial Statements

- | | | |
|----|------------------------------------------------------------------------------|-------------|
| 1. | Type of auditor's report issued | Unqualified |
| 2. | Internal control over financial reporting | |
| a. | Material weaknesses identified | No |
| b. | Significant deficiencies identified not considered to be material weaknesses | None |
| c. | Noncompliance material to the financial statements noted | No |

Federal Awards

- | | | | | |
|----|-----------------------------------------------------------------------------------------------------------------|--------|-----------------------------|-------------|
| 1. | Internal control over major programs | | | |
| a. | Material weaknesses identified | | | No |
| b. | Significant deficiencies identified not considered to be material weaknesses | | | None |
| 2. | Type of auditor's report issued on compliance for major program | | | Unqualified |
| 3. | Audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a) | | | No |
| 4. | A management letter was issued. | | | No |
| 5. | Identification of major program | 93.667 | Social Services Block Grant | |
| 6. | Dollar threshold used to distinguish between Type A and B programs | | | \$300,000 |
| 7. | Auditee qualified as a low-risk auditee under OMB A-133 Section 530 | | | No |

Section 2 - Financial Statement Findings

None

Section 3 - Federal Awards Findings and Questioned Costs

None

**St. Tammany Parish Hospital District No. 2
(d/b/a Slidell Memorial Hospital)**

Schedule of Findings and Questioned Costs (Continued)

December 31, 2007

Section 4 - Summary of Prior Audit Findings

Findings 06-1 and 05-1

Federal Program - Department of Homeland Security, Public Assistance Grants, passed through the State of Louisiana Governor's Office of Homeland Security and Emergency Preparedness, CFDA No. 97.036

Specific requirement - Sections 300 and 320 of OMB Circular A-133, state that the audited schedule of federal expenditures and data collection form must be submitted to the cognizant or oversight agency within the earlier of 30 days after receipt of the auditors' report or nine months after the end of the audit period unless agreed to in advance by the cognizant agency.

Condition - The required documents were not submitted by the specified deadline, and prior approval for the oversight agency was not obtained.

Recommendation - The Hospital should ensure that the audits required by Sections 300 and 320 of OMB Circular A-133 are properly performed and submitted when due. Additionally, when federal grant monies are received in the future, the Hospital should monitor compliance with the provisions of OMB Circular A-133.

Management Response and Corrective Action Plan - It was management's belief that an audit performed in accordance with OMB Circular A-133 of such funds related to this grant was not required. All submissions will be completed during 2007 and compliance requirements will be monitored in the future. (Contact Mr. Bill Davis, Chief Financial Officer, 985-649-8504)

Current Year Status - All submissions are up to date at this time. The 2005 and 2006 single audits were submitted during 2007 and the 2007 single audit was submitted at the same time as the financial statement audit prior to the required deadline in 2008. These findings have been cleared.

**ST. TAMMANY PARISH HOSPITAL
SERVICE DISTRICT NO. 2 d/b/a
SLIDELL MEMORIAL HOSPITAL
MANAGEMENT LETTER
DECEMBER 31, 2007**



April 10, 2008

**Members of the Board of Commissioners
St. Tammany Parish Hospital Service
District No. 2**

In planning and performing our audit of the consolidated basic financial statements of St. Tammany Parish Hospital Service District No. 2 of St. Tammany Parish, Louisiana (The Hospital) for the year ended December 31, 2007 (on which we have issued our report dated April 10, 2008) in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly we do not express such an opinion on the effectiveness of the Hospital's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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A description of the responsibility of management for establishing and maintaining internal control, and the objectives and inherent limitations of internal control, is set forth in the attached Appendix, and should be read in conjunction with this letter. Our current year comments and recommendations are presented in Exhibits I and II and are listed in the table of contents thereto.

This communication is intended solely for the information and use of management, and the board of commissioners, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte, DeLoach, Krugler & Neal

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**SLIDELL MEMORIAL HOSPITAL
MANAGEMENT LETTER
December 31, 2007**

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EXHIBIT I
GENERAL COMMENTS

MANAGEMENT AND STAFF COOPERATION DURING THE AUDIT

We'd like to express our appreciation to the board, management, and the financial staff of the Hospital, both for the trust you have placed in us by selecting us as your auditors, as well as the cooperation afforded us during the process.

We'd like to specifically recognize the efforts of, and express our gratitude to Kim Ernst and her staff. The accounting staff of the Hospital rendered whatever assistance was necessary during the audit without complaint or hesitation.

EXHIBIT II

ADMINISTRATIVE, INTERNAL CONTROL AND OTHER MATTERS

❖ 2007-1 LOUISIANA REVISED STATUTE 24:523 COMPLIANCE

Observation

In 2007 management discovered an event of theft related to cash received in the operation of the Hospital's cafeteria. A review of all cash receipts and deposits was conducted working backward to January 1, 2006. The earliest identified missing funds were in March 2006 and continued until the date of discovery in June 2007. On July 3, 2007 the employee involved in the misappropriation resigned. On July 6, 2007 the District Attorney's Office was notified and the matter was also reported to the employee dishonesty insurance carrier. On July 9, 2007 the matter was reported to the Slidell, Louisiana Police Department. The employee was arrested by the Slidell Police Department on August 9, 2007 and pled guilty to charge of felony theft greater than \$500 on March 18, 2008. Sentencing is scheduled for July 10, 2008

The Hospital, after working with the forensic auditors of the insurance carrier, determined the theft was a total of ninety-three thousand nine hundred twelve dollars and thirty-nine cents (\$93,912.39). After the deductible was applied, the employee dishonesty insurance policy paid the Hospital ninety-two thousand six hundred sixty-two dollars and thirty-nine cents (\$92,662.39). The former employee has not paid the Hospital any restitution. The employee dishonesty insurance company retains subrogation rights to pursue the former employee in the matter.

During the audit we noted that while the Hospital immediately notified the Parish of St. Tammany's District Attorney Office of the theft, management was unaware of the requirements to notify the State of Louisiana's Legislative Auditor immediately. While the impropriety involved a relatively minor monetary amount, internal controls identified the matter, and full retribution was made through insurance coverage, the Hospital had an obligation to immediately report the incident to the Legislative Auditor as well as the local District Attorney.

Effect

Failure to report instances of the impropriety to the State of Louisiana's Legislative Auditor's office immediately results in an instance of non-compliance with Louisiana Revised Statute 24:523.

Recommendation

Upon the detection of any improper act, regardless of the size of the monetary amount, Hospital management should be cognizant of the requirement to provide written documentation of the incident, together with any disciplinary and corrective action taken by the Hospital, to the State of Louisiana's Legislative Auditor's office.

Management Response and Corrective Action

Upon notification of the requirements of R.S. 24:523 management immediately sent written communication to the State of Louisiana's Legislative Auditor's office and detailed the matter as well as the current status. Management indicates that they are now fully aware of the compliance requirements and will provide immediate written documentation to both the District Attorney's office and the State of Louisiana's Legislative Auditor's office upon the detection of any future impropriety. To prevent any recurrence of such an incident, management engaged its external auditors to assist in review and revision of control procedures. Those revisions were implemented on the same day the recommendations were made. Additional controls implemented included further separation of duties, and redundant daily supervisor review of cash sheets and deposit documentation. The Hospital has also since hired a full time experienced internal auditor which it believes will further aid in the prevention, and swift detection, of any perceived weaknesses in operational controls.

Status - RESOLVED