ST. TAMMANY PARISH HOSPITAL SERVICE DISTRICT NO. 2

d/b/a SLIDELL MEMORIAL HOSPITAL

Financial Statements
December 31, 2013 and 2012

LAPORTE
CPAs & BUSINESS ADVISORS

Contents

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, 2013. This should be read in conjunction with the financial statements in this report.

Executive Summary

The Hospital continued to make strategic investments in physician alignment, service growth, and quality improvement to position the facility for the future. The SMH Physician Network has grown to a complement of seven primary care physicians, nine specialists, and two nurse practitioners. In 2013, the Physician Network recruited physicians in the specialty areas of general surgery, family medicine, pediatric medicine, and rheumatology. Management and the Board are committed to a strategy of reducing variation in medical practice and increasing access to primary care in the market place. The hospitalists group is focused on excellent patient satisfaction and best practice medicine. The hospitalists group continues to attend to over 50% of the hospitalized patients. The hospitalist program also alleviates the emergency department call burden on the limited number of primary care physicians in the community.

The last quarter of 2013, the Hospital opened a $29 million Emergency Room and Cardiology expansion project. This expansion increased capacity in the Emergency Room and added thirty-eight private rooms in the new Cardiology Unit.

The Hospital plans to open a $5.1 million Heart Center (SMH Heart Center) in the first quarter of 2015. This additional 9,000 square feet will increase capacity in the outpatient cardiology service line as well as improve cardiology throughput, patient, and physician satisfaction.

The SMH Regional Cancer Center provides a comprehensive, coordinated care model with services ranging from an appearance center, library, laboratory, pharmacy, and infusion center. The Radiation Oncology Services continue to offer services to the community to allow patients to receive services close to home. The Cancer Center received the American College of Surgeons accreditation in the last quarter of 2013. Program services were expanded in 2013 to include a Head and Neck program and a Smoking Cessation program for the community. In addition, the Foundation sponsored a software program for the Navigation Program to enhance the services offered through the existing Navigation Program.

As a result of the focus on quality, the hospital developed the Slidell Chapter of Gulf South Quality Network (GSQN), a clinically integrated network of physicians partnered with Slidell Memorial Hospital. Through the Slidell GSQN chapter, more than 138 Slidell physicians were recruited to work toward improving quality and efficiency in healthcare. During 2013, the GSQN contracted on a "shared savings" basis to serve as the provider network for the SMH employee medical benefit plan. In early 2014, GSQN signed a shared savings arrangement with Blue Cross/Blue Shield of Louisiana.

The Hospital received many awards and recognitions in 2013. ,Slidell Memorial Hospital earned an "A" in the Leapfrog Top Hospital Safety Score. In addition, the hospital received Joint Commission triennial accreditation, The American Heart Association Fit-Friendly Company award, East St. Tammany Chamber of Commerce Economic Development Pioneer Award, New Orleans City Business Healthcare Heroes, LHA Trust Fund Safety Star award, National Telly award for Image Advertising Campaign, and the Louisiana Hospital Association Certification of Merit Pelican award. In 2013, SMH also received a CMS grant to improve care transitions and reduce readmissions. SMH received accreditations from the American College of Radiation Oncology, American College of Radiology (CT/MRI/PET/ CT/Mammography) and American College of Surgeons Commission on Cancer Accreditation with Commendation.

Not unlike many states, Louisiana faced significant budget challenges in 2013. Due to unfunded programs, the State of Louisiana Department of Health and Hospitals (DHH) leaves approximately $800 million of federal Medicaid match on the table each year.

Medicare and Medicaid Recovery Audit Contractors (RAC) activity is continuing to increase and, as the findings are derived, there could be changes required in utilization management protocols, in addition to reimbursement recoveries.

Financial Highlights

In 2013 the Hospital encountered a shift in payer mix negatively impacting financial reimbursement by over $2 million. The Hospital realized a decrease in commercial insurance by 1%, an increase in uninsured patients by 1%, and an increase in Medicaid by 1%. In addition, the Hospital was negatively impacted over $3 million related to the implementation of a new rule by CMS referred to as the "Two Midnight Rule." The new rule resulted in a decrease in inpatient admissions and an increase in observation admissions. Management has taken action to offset the majority of the reductions in reimbursement.

Net patient service revenue increased by 3.2% from the prior year. Acute admissions were flat with prior year and patient days were down 5.3%. There was a shift from inpatient to observation admissions which increased by 20.5% from prior year. There was also an increase in other outpatient volumes.

Compared to prior year, births were up 29.6%, surgeries were up 9.2%, catheterization patients were up 2.1%, and emergency room visits were up .9%. The Hospital's payer mix also shifted from prior year, the uninsured and Medicaid population increased, and Managed Care and Commercial insurance population decreased.

Operating expenses before depreciation and amortization in 2013 increased 6.4% from the prior year. This increase is primarily due to salary and supply expense as a result in increased volumes and the start-up costs of opening the new Emergency Room and Cardiology Units. Management operates the facility on a daily productivity management system to flex variable labor by shift. Departmental Operating Statements are published monthly with flex budget reporting to guide management on budget variance action plans.

The Hospital's total net position decreased by $1 million from the prior year. The assets of the Hospital exceeded liabilities at the close of the 2013 fiscal year by $68.4 million. Of this amount, $19.3 million (unrestricted net position) may be used to meet ongoing obligations to the Hospital's patients and creditors, and $41.0 million is net investment in capital assets.

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 Financial Statements, and Supplementary Information.

The Financial Statements of Slidell Memorial Hospital report the financial position of the Hospital and the results of its operations and its cash flows. The 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 Statements of Net Position includes all of the Hospital's assets, deferred outflows, 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. They 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 *Statements of Revenues, Expenses, and Changes in Net Position*. This statement measures the performance of the Hospital's operations over the past two years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources.

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

Financial Analysis of the Hospital

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

Net Position

A summary of the Hospital's statements of net position is presented in the following table:

	Fiscal Year 2013	Fiscal Year 2012, Restated	Fiscal Year 2011, Restated
Current and other assets	$ 78,131	$ 88,814	$ 83,963
Capital assets, net	99,935	81,310	71,707
Deferred outflow of resources	425	467	-
Total assets and deferred outflow of resources	$ 178,491	$ 170,591	$ 155,670
Long-term debt outstanding	$ 91,495	$ 84,356	$ 71,346
Other liabilities	18,535	16,819	17,542
Total liabilities	$ 110,030	$ 101,175	$ 88,888
Net investment in capital assets	$ 41,085	$ 36,983	$ 33,410
Restricted	8,095	8,027	8,143
Unrestricted	19,281	24,406	25,229
Total net position	$ 68,461	$ 69,416	$ 66,782

<u>December 31, 2013</u>
Long-term debt increased $7.1 million while other and capital assets increased $7.9 million, reflecting the net effect of the latest expansion project's related debt issuance, proceeds received, investment in capital, and depreciation of existing capital assets.

<u>December 31, 2012</u>
Long-term debt increased $13.0 million while other and capital assets increased $14.9 million, reflecting the net effect of the latest expansion project's related debt issuance, proceeds received, investment in capital, and depreciation of existing capital assets.

Summary of Revenues, Expenses, and Changes in Net Position

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended December 31, 2013, 2012 and 2011:

	Fiscal Year 2013	Fiscal Year 2012, Restated	Fiscal Year 2011, Restated
Net patient service revenue	$ 123,925	$ 120,080	$ 124,730
Other operating revenue excluding interest income	4,292	5,334	2,993
Total operating revenues	128,217	125,414	127,723
Operating expenses before depreciation/amortization	122,498	115,158	119,164
Earnings before interest depreciation and amortization and non-operating revenues (expenses) (EBIDA)	5,719	10,256	8,559
Depreciation and amortization expense	8,849	9,393	9,763
Operating net income (loss)	(3,130)	863	(1,204)
Non-operating revenues (expenses):			
Interest income	238	430	252
Interest expense	(2,220)	(2,153)	(2,403)
Property tax revenue	4,122	3,615	3,832
Other, net	35	(121)	(1,286)
Excess (deficiency) of revenues over expenses	(955)	2,634	(809)
Total net position - beginning of year as previously reported	69,416	66,782	67,805
Cumulative effect of change from adoption of accounting principle	-	-	(214)
Total net position - beginning of year as restated	69,416	66,782	67,591
Total net position - end of year	$ 68,461	$ 69,416	$ 66,782

The following table represents the relative percentage of gross charges billed for patient services by payer for the fiscal years ended December 31, 2013, 2012 and 2011:

	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2011
Medicare & Medicare HMO	52%	52%	51%
Medicaid	13%	12%	12%
Managed care and commercial insurance	31%	32%	33%
Uninsured patients	4%	4%	4%
Total gross charges	100%	100%	100%

Operating and Financial Performance

The following summarizes the Hospital's Statements of Revenues, Expenses, and Changes in Net Position between 2013, 2012 and 2011:

- In 2013, SMH realized a 1% decrease in commercial payer mix, a 1% increase in Medicaid payer mix, and a 1% increase in uninsured patients which has a negative financial reimbursement impact of over $2 million.

- CMS implemented regulations regarding the two midnight rule in 2013 that had a significant impact on shifting patients from Inpatient to Observation patient admissions. This shift caused a decrease in net revenue totaling over $3 million.

- In 2013, the Hospital had 6,620 acute inpatient admissions. This is an increase of .1% from fiscal year 2012. The Hospital's observation admissions increased 20.5% from 2012. During 2012, the Hospital had 6,612 acute inpatient admissions. This was an increase of 1.7% from fiscal year 2011.

- Emergency registrations were 28,931 and 28,662 in 2013 and 2012, respectively, representing an increase of .9% in 2013 over 2012. There was an increase of 1.9% in 2012 compared to fiscal year 2011.

- During 2013, net patient service revenue increased $3.8 million, or 3.2%, from 2012. This increase is a result of an increase in outpatient volumes from prior year. During 2012, net patient service revenue decreased $4.6 million, or 3.7%, from 2011.

- During 2013, other operating revenue excluding interest income decreased $1 million, or 18.4%, from prior year. This is a direct result of a decrease in the CMS year two meaningful use payments.

- During 2013, salaries, wages and benefits increased 5.1% from prior year reflecting increased staff required to handle volume increases in specific specialty areas. In addition, salary and wages included additional expense attributed to the opening of the Emergency Room and Cardiology wing. During 2012, salaries, wages and benefits increased 2.2% from 2011.

- During 2013, supplies and materials increased approximately 3.0% compared to 2012, primarily due to volume increases in specialty areas. During 2012, supplies and materials decreased 12.0% compared to 2011, as a direct result of the pharmacy 340B program initiatives.

- Professional Fees increased 6.5% from 2012 to 2013, compared to a decrease of 39.0% from 2011 to 2012. The increase from prior year is a result of entering into a new physician agreement.

- Other Direct expenses increased 16.3% from 2012 to 2013. These expenses increased by approximately 5.8% in 2012 over the previous year. This variance is a result in additional expense as a result of opening the expansion project.

Performance Against Budget

	FY 2013 Budget	FY 2013 Actual	Favorable (Unfavorable) Variance
Revenues:			
Net patient service revenue	$ 127,581	$ 123,925	$ (3,656)
Other operating revenue	4,627	4,292	(335)
Total revenues	132,208	128,217	(3,991)
Operating expenses:			
Salaries, wages and benefits	66,061	66,739	(678)
Supplies and other	46,081	45,627	454
Professional and contractual services	10,680	10,132	548
Total operating expenses before depreciation/ amortization and non-operating revenues (expenses)	122,822	122,498	324
EBIDA	9,386	5,719	(3,667)
Interest income	415	238	(177)
Interest expense	(2,405)	(2,220)	185
Depreciation and amortization	(9,939)	(8,849)	1,090
Non-operating revenue, net	3,965	4,157	192
Excess (deficiency) of revenues over expenses	1,422	(955)	(2,377)
Increase in net position	$ 1,422	$ (955)	$ (2,377)

- Net patient service revenue was below budget for 2013 as a result of the shift in payer mix and the shift from inpatient to observation patients.

- Depreciation and Amortization expense was below budget due to a facility life study being conducted and in 2013 management revised the estimate of useful lives as a result of the study.

Capital Assets

	Fiscal Year 2013	Fiscal Year 2012	Dollar Change	Percent Change
Land and land improvements	$ 8,720	$ 8,523	$ 197	2%
Building and leasehold improvements	123,071	93,508	29,563	32%
Equipment	88,945	81,751	7,194	9%
Construction in progress	59	11,234	(11,175)	-99%
Subtotal	220,795	195,016	25,779	13%
Less: accumulated depreciation	(120,860)	(113,706)	(7,154)	6%
Net capital assets	$ 99,935	$ 81,310	$ 18,625	23%

Economic Factors and Next Year's Budget

The Hospital's Board and Management considered many factors when setting the fiscal year 2014 budget. One major consideration is the new Emergency Room and Cardiology Unit, which opened in October of 2013. Management will continue to focus on recruiting employed physicians in the primary care specialty. In addition, the broad economy is of significant importance in setting the 2014 budget, which takes into account market forces and environmental factors such as:

- The effect of general weakness in the broad economy signaling changes in employment, employment related benefits, and ultimately managed care tightness on utilization and rates.

- Continuing federal budget deficit related cuts.

- The State of Louisiana continues to face deficits which place Medicaid rates and other reimbursement methods at risk. Medicaid is targeting additional reductions in reimbursements in the NICU and ER specialties. Management continues to educate lawmakers about the rate inequity among Louisiana hospitals.

- SMH will continue investment in physician alignment and information systems which can result in financial losses in the short run but are anticipated to be a key part of long term success if not survivability of hospitals in an era of pay for performance, bundled payment, and/or accountable care organizations.

- The industry will continue to face growing utilization of costly technology without adequate reimbursement.
- The industry will continue to face the growing number of high cost of drugs, such as chemotherapy agents and new genetic custom specialty drugs, without adequate reimbursement.
- The industry will continue to face increased compliance costs due to pay for performance, HIPAA, and other regulations.

Contacting the Hospital Financial Manager

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances. If you have any questions about this report or need additional financial information, please contact the Chief Financial Officer, Slidell Memorial Hospital, 1001 Gause Blvd., Slidell, LA 70458.

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Independent Auditor's Report

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

Report on Financial Statements
We have audited the accompanying financial statements of the St. Tammany Parish Hospital Service District No. 2 (d/b/a Slidell Memorial Hospital) (the Organization) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Managements Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the St. Tammany Parish Hospital Service District No. 2 (d/b/a Slidell Memorial Hospital), as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle
As discussed in Note 1 to the financial statements, the Organization implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Our opinion is not modified with respect to this matter.

Emphasis of Matter - Subsequent Event
As discussed in Note 7 to the financial statements, the Organization was notified by the Federal Emergency Management Agency on February 18, 2014, that the entire balance of both principal and accrued interest associated with its Community Disaster Loan was forgiven and the debt was cancelled at that time.

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

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Organization's basic financial statements. The schedule of compensation paid to board of commissioners is presented for purposes of additional analysis and is not a required part of the basic financial statements.

This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of compensation paid to board of commissioners is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2014 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report and the related summary schedule of the current status or prior years' audit findings is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

LaPorte

A Professional Accounting Corporation

Metairie, LA
April 21, 2014

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

Statements of Net Position
December 31, 2013 and 2012

	2013	2012 (Restated)
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and Cash Equivalents	$ 38,328,527	$ 42,390,248
Patient Accounts Receivable, Net of Allowances for Uncollectible Accounts of $11,550,675 and $8,872,352 in 2013 and 2012, Respectively	13,610,263	12,968,965
Assets Whose Use is Limited, Required for Current Liabilities	3,606,067	3,485,394
Inventories	3,341,157	3,207,147
Prepaid Expenses and Other Receivables	7,201,916	6,805,253
Total Current Assets	66,087,930	68,857,007
Assets Whose Use is Limited or Restricted		
Under Agreements for Capital Improvements and Debt Service	10,908,196	18,757,684
By Board Direction	425,268	399,241
By State Department of Workers' Compensation	700,000	700,000
Total Assets Whose Use is Limited or Restricted	12,033,464	19,856,925
Capital Assets		
Land and Improvements	8,719,608	8,522,433
Buildings and Improvements	123,070,644	93,508,026
Equipment	88,945,934	81,750,886
Construction in Progress	59,076	11,234,208
	220,795,262	195,015,553
Less: Accumulated Depreciation	(120,860,289)	(113,705,665)
Capital Assets, Net	99,934,973	81,309,888
Other Assets, Net	10,008	100,000
Total Assets	178,066,375	170,123,820
Deferred Outflows of Resources	425,117	466,932
Total Assets and Deferred Outflows of Resources	$ 178,491,492	$ 170,590,752

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

Statements of Net Position (Continued)
December 31, 2013 and 2012

	2013	2012 (Restated)
Liabilities and Net Position		
Current Liabilities		
Trade Accounts Payable	$ 4,023,239	$ 4,611,719
Salaries, Wages and Benefits Payable	1,842,227	1,762,339
Accrued Paid Time Off Payable	2,130,973	1,996,831
Accrued Interest and Other Expenses	7,004,016	5,133,403
Amounts Due Within One Year on Bonds Payable	2,270,000	2,200,000
Amounts Due Within One Year on Hospital Indebtedness and Notes Payable	1,265,000	1,115,000
Total Current Liabilities	18,535,455	16,819,292
Hospital Indebtedness, Less Amounts Due Within One Year	11,120,000	2,385,000
Bonds Payable, Less Amounts Due Within One Year	51,740,000	54,010,000
Community Disaster Loan, Including Accrued Interest	28,635,579	27,960,713
Commitments and Contingencies (Notes 6, 7 and 9)	-	-
Total Liabilities	110,031,034	101,175,005
Net Position		
Net Investment in Capital Assets	41,083,974	36,982,432
Restricted for:		
Debt Service	7,395,379	7,327,466
Workers' Compensation	700,000	700,000
Unrestricted	19,281,105	24,405,849
Total Net Position	68,460,458	69,415,747
Total Liabilities and Net Position	$ 178,491,492	$ 170,590,752

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

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2013 and 2012

	2013	2012 (Restated)
Revenues		
Net Patient Service Revenue	$ 123,924,574	$ 120,079,661
Other Revenue	4,292,525	5,334,273
Total Revenues	128,217,099	125,413,934
Operating Expenses		
Salaries and Wages	55,171,616	52,485,089
Employee Benefits	11,567,154	11,040,631
Supplies and Materials	27,075,925	26,299,360
Other Direct Expenses	18,551,282	15,955,950
Professional Fees	4,503,600	4,227,719
Purchased Services	5,627,986	5,149,426
Depreciation and Amortization	8,849,449	9,392,832
Total Operating Expenses	131,347,012	124,551,007
Operating (Loss) Income	(3,129,913)	862,927
Non-Operating Revenues (Expenses)		
Interest Income	238,068	430,106
Interest Expense	(2,220,190)	(2,153,824)
Property Tax Revenue	4,121,882	3,614,955
Other, Net	34,864	(120,805)
Total Non-Operating Revenues, Net	2,174,624	1,770,432
Change in Net Position	(955,289)	2,633,359
Net Position, Beginning of Year as Previously Reported	69,415,747	67,035,110
Cummulative Effect of Change from Adoption of Accounting Principle	-	(252,722)
Net Position, Beginning of Year as Restated	69,415,747	66,782,388
Net Position, End of Year	$ 68,460,458	$ 69,415,747

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

Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	2013	2012 (Restated)
Cash Flows from Operating Activities		
Cash Received from Patient Services	$ 125,776,100	$ 124,218,356
Cash Paid to or on Behalf of Employees	(66,478,805)	(63,032,037)
Cash Paid for Supplies and Services	(54,173,427)	(53,482,327)
Cash Received from Federal and State Programs	919,860	2,128,431
Net Cash Provided by Operating Activities	6,043,728	9,832,423
Cash Flows from Non-Capital Financing Activities		
Other Non-Operating Receipts (Expenditures), Net	34,864	13,072
Net Cash Provided by Non-Capital Financing Activities	34,864	13,072
Cash Flows from Capital and Related Financing Activities		
Purchase of Capital Assets	(26,888,548)	(18,377,452)
Proceeds from Bond Issuance	10,000,000	21,180,000
Principal Payments on Long-Term Debt and Capital Lease Obligations	(3,315,000)	(3,193,527)
Extinguishment of Debt	-	(5,530,000)
Cost of Extinguishment of Debt	-	(494,808)
Dedicated Property Tax Revenue Received	3,864,386	3,506,955
Costs of Debt Issue	-	(133,877)
Interest Payments	(2,114,869)	(2,052,659)
Proceeds from Sale of Capital Assets	30,366	-
Net Cash Used in Capital and Related Financing Activities	(18,423,665)	(5,095,368)
Cash Flows from Investing Activities		
Increase in Assets Whose Use is Limited or Restricted	7,960,284	(5,805,474)
Purchase of Investment	(15,000)	(100,000)
Interest Earned on Investments	338,068	430,106
Net Cash Provided by (Used in) Investing Activities	8,283,352	(5,475,368)
Decrease in Cash and Cash Equivalents	(4,061,721)	(725,241)
Cash and Cash Equivalents, Beginning of Year	42,390,248	43,115,489
Cash and Cash Equivalents, End of Year	$ 38,328,527	$ 42,390,248

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

Statements of Cash Flows (Continued)
For the Years Ended December 31, 2013 and 2012

	2013	2012 (Restated)
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating (Loss) Income	$ (3,129,913)	$ 862,927
Adjustments to Reconciliation of Operating (Loss) Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	8,849,449	9,392,832
Changes in Operating Assets and Liabilities		
Patient Accounts Receivable	(641,298)	2,527,479
Inventories and Other Operating Assets	(530,673)	(2,090,022)
Accounts Payable and Accrued Expenses	1,496,163	(860,793)
Net Cash Provided by Operating Activities	$ 6,043,728	$ 9,832,423

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

Note 1. Organization and Significant Accounting Policies

Organization and Nature of Operations

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

Reporting Entity

The basic financial statements present the Hospital and its component units, entities for which the Hospital is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

Blended Component Units:

Slidell Memorial Hospital Foundation, Inc. (the Foundation) is a Louisiana non-profit corporation exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The Foundation's sole member is St. Tammany Hospital Service District No. 2 (the District). The Foundation is operated by the District and was formed to provide the Hospital with supplemental funds for certain programs and other support.

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

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

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

Note 1. Organization and Significant Accounting Policies (Continued)

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated non-exchange transactions (principally, government grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated non-exchange transactions that are not program specific, investment income, and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Organization first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available. All significant inter-entity accounts have been eliminated in the accompanying financial statements.

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 and 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 and are subject to change.

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, 2013 and 2012, the Organization's cash, cash equivalents, and certificates of deposit were entirely insured or collateralized with securities held by its agent in the Organization's name.

Inventories

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

Capital Assets

Land, buildings, and equipment acquisitions are recorded at historical cost except for assets donated to the Organization. Donated assets are recorded at fair value on the date of donation. Depreciation of buildings and equipment is computed using the straight-line method in amounts sufficient to amortize the cost of these assets over their estimated useful lives. During 2013, management conducted a facility life study of the main hospital building and certain off campus facilities.

Note 1. Organization and Significant Accounting Policies (Continued)

Capital Assets (Continued)
Based on the results of the study, management revised its estimates of useful lives of those assets. This change resulted in a change in depreciation expense recognized during the year of $740,852 when compared to the previous estimates of useful lives of those depreciable assets.

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.

Assets Whose Use is Limited or Restricted
Assets whose use is limited or restricted consist of cash and investments reported at fair value with gains and losses included in the statements of revenues, expenses and changes in net position.

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 2013 and 2012.

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.

Note 1. Organization and Significant Accounting Policies (Continued)

Medicare and Medicaid Reimbursement Programs (Continued)
The Hospital is paid a prospective per diem rate for Medicaid inpatients. The per diem rate is based on a peer grouping methodology, which assigns a per diem rate to each hospital in the peer group.

Medicare outpatient services (excluding clinical lab and outpatient therapy) are reimbursed by the Outpatient Prospective Payment System (OPPS), which establishes a number of Ambulatory Payment Classifications (APC) for outpatient procedures in which the Hospital is paid a predetermined amount per procedure. Medicaid outpatient services (excluding ambulatory surgery, therapy and clinical lab) were reimbursed at 66.52% and 68.63% of the lower of cost or charges as of December 31, 2013 and 2012, respectively. Medicare and Medicaid outpatient clinical lab and Medicaid ambulatory surgery and outpatient therapy services are reimbursed based upon the respective fee schedules.

Retroactive cost settlements, based upon annual cost reports, are estimated for those programs subject to retroactive settlement and recorded in the 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.

Electronic Health Record Incentive Program
The Health Information Technology for Economic and Clinical Health Act, established by the American Recovery and Reinvestment Act of 2009, provides for Medicare and Medicaid incentive payments for eligible organizations and providers that adopt and meaningfully use certified electronic health record (EHR) technology. For the year ended December 31, 2013, the Hospital recorded EHR incentive revenue of $1,347,735 within other revenues on the statement of revenues, expenses and changes in net position. As of December 31, 2013, EHR incentive receivables of $1,224,771 related to this revenue are recorded as other receivables in the statement of net position.

Attestation of the Hospital's compliance with meaningful use criteria is subject to audit by the federal government or its designee and EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were determined.

Grants and Contributions
From time to time, the Hospital and its Foundation receive grants from the State of Louisiana, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Note 1. Organization and Significant Accounting Policies (Continued)

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

Net Position
In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended,* net position is classified into three components net investment in capital assets, restricted; and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets
This component of net position consists of the historical cost of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

Restricted
This component of net position consists of assets that have constraints that are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted
All other net position is reported in this category.

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 statements of net position.

Statements of Revenues, Expenses, and Changes in Net Position
All revenues and expenses directly related to the delivery of health care services are included in operating revenues and expenses in the statements of revenues, expenses, and changes in net position. Non-operating revenues and expenses consist of revenues and expenses related to financing and investing type activities and result from non-exchange transactions or investment income.

Note 1. Organization and Significant Accounting Policies (Continued)

Property Tax Revenues

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

Capitalized Interest

The Organization capitalizes interest cost incurred on funds used to construct property, plant, and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost, net of related interest revenue on borrowed funds, capitalized in connection with construction was $616,352 and $618,439, for the years ended December 31, 2013 and 2012, respectively.

Compensated Absences

The Organization's employees earn paid time off at varying rates depending on years of service. The estimated amount of paid time off as termination payments is reported as a component of the current liability for salaries wages and benefits payable in both 2013 and 2012.

Impact of Recently Issued Accounting Principles

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34.* GASB 61 result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units. This statement is effective for periods beginning after June 15, 2012. The adoption of this statement in 2013 resulted in additional disclosures contained in Note 13, but otherwise, did not have any impact on the Organization's financial statements.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* GASB 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletin of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011. The adoption of this statement in 2012 did not have any impact on the Organization's financial statements.

Note 1. Organization and Significant Accounting Policies (Continued)

Impact of Recently Issued Accounting Principles (Continued)

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The provisions of this statement are effective for financial periods beginning after December 15, 2011. During 2012, the Organization adopted the statement and restated balances previously referred to as net assets to net position.

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. The objective of GASB 65 is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The provisions of the statement are effective for periods beginning after December 15, 2012. During 2013, the Organization adopted the statement and applied the provisions retrospectively by restating the Organization's prior years' net position and changes in net position related to: (1) bond issuance costs that had previously been capitalized and amortized, but are no longer recognized as assets and (2) to reflect deferred bond defeasance costs as a deferred outflow of resources. Due to the adoption of GASB 65, long-term debt increased by $466,932 in 2012 as deferred losses on refunding were reclassified as deferred outflow of resources. Also, due to the adoption of GASB 65, the 2012 beginning net position decreased by $252,722, interest expense decreased by $42,322, other net non-operating expense increased by $133,877, and other assets decreased by $344,277.

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

Custodial Credit Risk - Deposits: Statutes authorize the Organization to invest in direct obligations of the U.S. Government, certificates of deposit of state banks and national banks having their principal office in the State of Louisiana, and any other federally insured investments, guaranteed investment contracts issued by a financial institution having one of the two highest rating categories published by Standard & Poor's or Moody's, and mutual or trust fund institutions registered with the Securities and Exchange Commission (provided the underlying investments of these funds meet certain restrictions). The Organization's cash deposits and money market accounts included in cash and cash equivalents and assets whose use is limited on its statements of net position, as of December 31, 2013 and 2012, 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.

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

Concentration of Credit Risk: As required under GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an Amendment of GASB Statement No. 3, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than five percent (5%) of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. At December 31, 2013 and 2012, the Organization had no investments requiring concentration of credit risk disclosure.

Assets Whose Use is Limited or Restricted: The terms of the Organization's bond issues require certain funds to be maintained on deposit with the trustee. The funds on deposit with the trustee, funds designated by the Board for capital improvements, and donated funds restricted by donor stipulations, as of December 31, 2013 and 2012, were as follows:

	2013	2012
Current Assets		
Dedicated Property Tax Revenue, Under Bond Indenture	$ 3,606,067	$ 3,485,394
Total	$ 3,606,067	$ 3,485,394
Non-Current Assets		
Dedicated Property Tax Revenue, and Amounts Under Bond Indenture	$ 3,789,312	$ 3,842,072
Under Agreements for Capital Improvements	7,118,884	14,915,612
By State Department of Workers' Compensation	700,000	700,000
By Board Direction	425,268	399,241
Total	$ 12,033,464	$ 19,856,925

The Board directed funds total in the previous table represents monies designated by the Board of Commissioners of the Hospital for capital improvements. Since 2001, the Board has granted management discretion to utilize these funds for other operating purposes. Management has continued to maintain these funds in a separate trust account and treat them as internally designated funds.

Note 3. Third-Party Payor Arrangements

The Hospital participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. During the years ended December 31, 2013 and 2012, approximately 65% and 64%, 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, 2008. The fiscal intermediary has completed its review of estimated Medicaid settlements for fiscal years ended through December 31, 2006. Annually, management evaluates the recorded estimated settlements and adjusts these balances based upon the results of the intermediary's audit of filed cost reports and additional information becoming available. Although the fiscal intermediary has not completed its audits of the estimated settlements for the years ended December 31, 2009 through 2013 for Medicare and for the years ended December 31, 2007 through 2013 for Medicaid, the Hospital does not anticipate significant adverse adjustments to the recorded settlements for those years.

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

Note 4. Net Patient Service Revenue

Net patient service revenue for the years ended December 31, 2013 and 2012, was as follows:

	2013	2012
Gross Patient Service Revenue		
Medicare	**$ 204,625,063**	$ 202,820,338
Medicaid	**91,406,358**	78,409,043
Medicare HMO	**156,951,009**	129,811,202
Managed Care/Commercial	**215,780,064**	206,561,353
Self Pay/Uninsured	**32,157,040**	24,384,867
Total	**700,919,534**	641,986,803
Contractual Adjustments	**(542,264,782)**	(493,599,866)
Charity Care	**(12,404,201)**	(10,119,962)
Provisions for Bad Debts	**(22,325,977)**	(18,187,314)
Total	**$ 123,924,574**	$ 120,079,661

Note 5. Community Benefits

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

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. As shown in Note 4, charity care provided during the years ended December 31, 2013 and 2012, measured at established rates, totaled $12,404,201 and $10,119,962, respectively.

The Hospital has also entered into a series of agreements related to funding healthcare for low income populations which are detailed in Note 12.

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

Note 5. Community Benefits (Continued)

During 2013, the SMH Community Outreach Center held 472 free or low cost health education programs with 12,102 attendees. Also during 2013, SMH performed free or low cost health screens for 1,066 people.

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

Note 6. Leases

Operating and Capital Lease Commitments
In previous years, the Hospital leased medical equipment under agreements accounted for as capital lease obligations. All of these obligations expired at various dates during 2012. The capital asset balances on the statements of net position included equipment held under capital lease obligations of $-0-, less accumulated amortization of $-0-, at December 31, 2013 and 2012, respectively.

The future minimum lease payments at December 31, 2013, for noncancelable leases are as follows:

	Operating Leases
2014	$ 663,257
2015	209,096
2016	149,952
2017	144,000
2018	84,000
Total	$ 1,250,305

The Hospital also leases medical and administrative equipment under operating leases with terms that vary from month-to-month to five years. Total rental expense included in other direct expenses on the statements of revenues, expenses, and changes in net position was $1,117,553 and $1,199,271, for the years ended December 31, 2013 and 2012, respectively.

Rental Income
The Hospital leases space to physicians through a combination of cancelable and noncancelable lease agreements accounted for as operating leases. Rental income earned under these agreements was $1,762,205 and $1,813,403, for the years ended December 31, 2013 and 2012, respectively.

Note 6. Leases (Continued)

Rental Income (Continued)
The future minimum lease payments to be received on noncancelable leases are summarized as follows:

For the Year Ended December 31,	Amount
2014	$ 1,647,694
2015	1,288,067
2016	453,033
2017	194,471
2018	194,471
Total	$ 3,777,736

Note 7. Long-Term Debt

A summary of the Hospital's long-term debt outstanding is as follows:

Summary	**2013**	2012
General Obligation Bonds	**$ 54,010,000**	$ 56,210,000
Hospital Indebtedness	**12,385,000**	3,500,000
FEMA Community Disaster Loans	**28,635,579**	27,960,713
Total Long-Term Debt	**$ 95,030,579**	$ 87,670,713

The following table, for the years ended December 31, 2013 and 2012, summarizes the changes in long-term debt:

	2013	2012
Balance of Long-Term Debt at January 1,	**$ 87,670,713**	$ 74,290,844
Less: Refunding of Bonds	**-**	(5,530,000)
Less: Repayment of Bonds and Notes Payable	**(3,315,000)**	(2,945,000)
Plus: Issuance of General Obligation Bonds	**-**	15,200,000
Plus: Issuance of General Obligation Bonds (Refunding)	**-**	5,980,000
Plus: Issuance of Hospital Indebtedness	**10,000,000**	-
Plus: Long-Term Accrued Interest on CDL Loan	**674,866**	674,869
Balance of Long-Term Debt at December 31,	**$ 95,030,579**	$ 87,670,713

Note 7. Long-Term Debt (Continued)

The details and balances of long-term debt at December 31, 2013 and 2012, are presented in the following table:

	2013	2012
General Obligation Bonds, Series 2004A, Described in Detail Below ($420,000 Due in 2014)	**$ 5,250,000**	$ 5,650,000
General Obligation Bonds, Series 2004B, Described in Detail Below ($620,000 Due in 2014)	**3,225,000**	3,815,000
General Obligation Bonds, Series 2004C, Described in Detail Below ($55,000 Due in 2014)	**840,000**	890,000
General Obligation Bonds, Series 2009, Described in Detail Below ($875,000 Due in 2014)	**14,000,000**	14,875,000
General Obligation Bonds, Series 2011, Described in Detail Below ($230,000 Due in 2014)	**9,585,000**	9,800,000
General Obligation Bonds, Series 2012, Described in Detail Below ($-0- Due in 2014)	**15,200,000**	15,200,000
General Obligation Refunding Bonds, Series 2012, Described in Detail Below ($70,000 Due in 2014)	**5,910,000**	5,980,000
Hospital Indebtedness, Series 2005, Described in Detail Below ($1,165,000 Due in 2014)	**2,385,000**	3,500,000
Hospital Indebtedness, Series 2013, Described in Detail Below ($100,000 Due in 2014)	**10,000,000**	-
FEMA Community Disaster Loans, Including Accrued Interest Described in Detail Below	**28,635,579**	27,960,713
Total Long-term Debt	**95,030,579**	87,670,713
Less: Amounts Due Within One Year	**3,535,000**	3,315,000
Total, Net of Amounts Due Within One Year	**$ 91,495,579**	$ 84,355,713

(The balances in the tables above reflect long-term accrued interest on the Community Disaster Loans as a component of the total balance.)

Note 7. Long-Term Debt (Continued)

General Obligation Bonds

The Hospital's general obligation bonds are payable from the annual levy and collection of unlimited ad valorem taxes on all the taxable property located within the boundaries of St. Tammany Hospital Service District No. 2 sufficient to pay such bonds in principal and interest as they mature.

Series 2004

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

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

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

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

Series 2009

On June 1, 2009, the Hospital issued $17.5 million in General Obligation Bonds with interest rates ranging from 4% to 6%, for the purpose of financing construction of its $20 million full service Cancer Center and related health care facilities project. The Bonds were authorized by the voters of the District in a special election held on November 17, 2007.

Note 7. Long-Term Debt (Continued)

Series 2011 and 2012
On April 30, 2011, the voters of St. Tammany Parish approved a referendum authorizing the Hospital to issue up to $25 million of general obligation bonds for the purpose of constructing, improving and expanding its facilities, including new emergency room services, cardiology services, and the conversion of existing semi-private rooms into private rooms.

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

The Hospital issued Series 2012 general obligation bonds in the amount of $15.2 million on March 1, 2012. Scheduled interest rates over the term of the 2012 bonds range from 2% to 3.125%.

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

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

General Obligation Refunding Bonds
On May 30, 2012, the Hospital issued $5,980,000 of general obligation refunding bonds, Series 2012. The bonds were issued for the purpose of refunding a portion of the Hospital's outstanding Series 2004B general obligation bonds. The refunding bonds bear interest at a rate of 2.20%. Interest is payable semi annually on March 1 and September 1 each year. The bonds mature in annual installments on March 1 of each year until 2024. The bonds are not callable for early redemption.

The funds were used to purchase direct, non-callable obligations of the U.S. Government and those securities were deposited in an irrevocable escrow fund with an escrow agent to provide debt service payments until the Series 2004B general obligation bonds mature or until the optional redemption date of March 1, 2014. The advance refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the Hospital's statement of net position. At December 31, 2012, Series 2004B general obligation refunding bonds outstanding were $5,530,000.

Note 7. Long-Term Debt (Continued)

General Obligation Refunding Bonds (Continued)
The loss incurred in connection with the advanced refunding of the Hospital's Series 2004B general obligation bonds has been deferred and is being amortized over the life of the refunding bond issue. Accumulated amortization on this deferred loss was $27,876 at December 31, 2012. Amortization is included in interest expense.

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 interest at 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.

On November 1, 2013, 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 interest at a rate of 2.99% and are payable in annual installments through July 1, 2023. 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.

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

The loans are payable from and secured by a pledge of the Hospital's revenues for each fiscal year while any of the notes are outstanding, after provision has been made for the payments required in connection with any outstanding bond indebtedness of the Hospital. Interest expense related to these loans was $674,866 and $674,869, for the years ended December 31, 2013 and 2012, respectively. There were no repayments of principal or interest during 2013 or 2012. Interest accrued to date as of December 31, 2013 was $5,131,653. The total principal and cumulative accrued interest outstanding as of December 31, 2013 was $28,635,579.

The Hospital has previously applied for forgiveness of its obligations to repay these loans under existing cancellation provisions. On March 26, 2013, legislation was passed which amended the criteria for cancellation of the notes. Under the terms of the new legislation, obligations not cancelled in full shall be repaid no later than September 30, 2035. For disclosure purposes, these loans and their related accrued interest have been reflected as long-term obligations.

Note 7. Long-Term Debt (Continued)

FEMA Community Disaster Loans (Subsequently Forgiven in Full) (Continued)
The Hospital submitted supplemental documentation in support of its applications for cancellation and on February 18, 2014, the Hospital was notified that the full amount of its obligation, including accrued interest, was cancelled.

Combined Existing Debt Service Commitments
Principal and interest payments due on general obligation bonds and notes payable outstanding as of December 31, 2013, are as follows:

Years Ended December 31,	Principal	Interest
2014	$ 3,535,000	$ 2,147,996
2015	4,245,000	2,116,451
2016	4,090,000	1,975,882
2017	4,210,000	1,851,744
2018	4,360,000	1,718,690
2019-2023	23,995,000	6,512,525
2024-2028	12,100,000	3,003,847
2029-2033	7,905,000	1,050,256
Thereafter	30,590,579	140,388
Total	$ 95,030,579	$ 20,517,779

Note 8. Employee Benefits

The Hospital and its member organizations maintain qualified defined contribution retirement and deferred compensation plans which provide benefits for eligible employees. Beginning in April, 2002, the Hospital initiated a combined deferred compensation and contributory employee savings plan for full-time employees. Each employee's interest in a previous plan was fully vested and was transferred over to the new plan.

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

Vesting in the Hospital's contribution is based on years of service. After three years of eligible service, the employee is 100% vested. Prior to that time, the employee is -0-% vested.

The total payroll for the years ended December 31, 2013 and 2012 was $55,171,616 and $52,485,089, respectively. During the years ended December 31, 2013 and 2012, the Hospital and member organizations made required contributions to the plan of $1,426,332 and $1,281,583, respectively.

Note 9. Risk Management and Regulatory Matters

Risk Management

The Hospital participates in the Louisiana Patients' Compensation Trust Fund (PCF) for insurance coverage on professional liability (medical malpractice) claims. As a participant, the Hospital has a statutory limitation of liability which provides that no award can be rendered against it in excess of $500,000, plus interest and costs. The PCF provides coverage on a claims occurrence basis for claims over $100,000 and up to the $500,000 statutory limitation. The Hospital is self-insured with respect to the first $100,000 of each claim.

The Hospital also participates in the Louisiana Hospital Association Trust Fund (LHA Trust Fund), which provides general liability coverage up to $1,000,000 per claim. The LHA Trust Fund also insures excess general liability claims in excess of $1,000,000 but limited to $9,500,000 per claim. Effective November 1, 2007, the Hospital's insurance coverage under the LHA Trust Fund is subject to a deductible of $150,000 on a claims made basis.

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation. As of December 31, 2013, the Hospital has recorded professional and general liability accruals, totaling $1,559,106, as an estimated provision for both asserted claims and for claims incurred but not reported. This provision is included as a component of accrued interest and other expenses on its statement of net position. Additional claims may be asserted against the Hospital arising from services provided to patients through December 31, 2013, exceeding these coverage limits; however, management believes it has adequately provided for them.

The Hospital is self-insured for workers' compensation up to $400,000 per claim, and employee health up to $175,000 per claim. A liability is recorded when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Liabilities for claims incurred are reevaluated periodically to take into consideration claims incurred but not reported, recently settled claims, frequency of claims, and other economic and social factors. The Hospital carries commercial insurance which provides coverage for workers' compensation and employee health claims in excess of the self-insured limits.

As of December 31, 2013, the Hospital has recorded workers' compensation and employee health accruals, totaling $660,878 and $350,000, respectively, as an estimated provision for both asserted claims and for claims incurred but not reported. This provision is included as a component of accrued interest and other expenses on its statement of net position.

Note 9. Risk Management and Regulatory Matters (Continued)

Risk Management (Continued)

Changes in the Hospital's aggregate claims liability for professional, general liability, workers' compensation and employee health, which are included in accrued interest and other expenses on the accompanying statements of net position, were as follows for the years ended December 31, 2013 and 2012:

Years Ended December 31,	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Year End
2013	$ 2,089,885	$ 7,585,040	$ 7,104,941	$ 2,569,984
2012	$ 1,921,593	$ 7,049,096	$ 6,880,804	$ 2,089,885

Regulatory Matters

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

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

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

Note 9. Risk Management and Regulatory Matters (Continued)

Regulatory Matters (Continued)

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

The Organization was the subject of ongoing RAC and MIC audits during 2013 and 2012, and deducts from revenue amounts assessed under the RAC audits at the time a notice is received, until such time that estimates of net amounts due can be reasonably estimated. Annual net assessments against the Organization have not been significant through December 31, 2013.

In March 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. The PPACA is creating sweeping changes across the healthcare industry, including how care is provided and paid for. A primary goal of this comprehensive reform legislation is to extend health coverage to uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. Management of the Hospital is studying and evaluating the anticipated effects and developing strategies needed to prepare for implementation, and is preparing to work cooperatively with other consultants to optimize available reimbursement.

Note 10. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are local residents and are often insured under third party payor agreements. The mix of receivables from patients and third party payors, net of contractual allowances and discounts, at December 31, 2013 and 2012, was as follows:

	2013	2012
Medicare	**8%**	11%
Medicaid	**7%**	6%
Medicare HMO	**9%**	9%
Managed Care and Other Payors	**24%**	28%
Patients	**52%**	46%
Total	**100%**	100%

Note 11. Changes in Capital Assets

Capital asset activity for the fiscal year ended December 31, 2013, was as follows:

	Balance December 31, 2012	Additions	Deletions	Balance December 31, 2013
Capital Assets Not Being Depreciated				
Land	$ 6,145,501	$ 9,951	$ -	$ 6,155,452
Construction in Process	11,234,206	22,656,584	(33,831,714)	59,076
Total Capital Assets Not Being Depreciated	17,379,707	22,666,535	(33,831,714)	6,214,528
Capital Assets Being Depreciated				
Land Improvements	2,376,934	187,222	-	2,564,156
Buildings	93,508,024	29,724,039	(161,419)	123,070,644
Equipment	81,750,888	9,507,735	(2,312,689)	88,945,934
Total Capital Assets Being Depreciated	177,635,846	39,418,996	(2,474,108.00)	214,580,734
Less Accumulated Depreciation for:				
Land Improvements	1,184,262	93,165	-	1,277,427
Buildings	53,808,972	2,981,245	(649)	56,789,568
Equipment	58,712,431	5,770,047	(1,689,184)	62,793,294
Total Accumulated Depreciation	113,705,665	8,844,457	(1,689,833)	120,860,289
Capital Assets Being Depreciated, Net	63,930,181	30,574,539	(784,275.00)	93,720,445
Total	$ 81,309,888	$ 53,241,074	$ (34,615,989)	$ 99,934,973

Note 11. Changes in Capital Assets (Continued)

Capital asset activity for the fiscal year ended December 31, 2012, was as follows:

	Balance December 31, 2011	Additions	Deletions	Balance December 31, 2012
Capital Assets Not Being Depreciated				
Land	$ 5,943,431	$ 202,070	$ -	$ 6,145,501
Construction in Process	1,579,519	9,654,687	-	11,234,206
Total Capital Assets Not Being Depreciated	7,522,950	9,856,757	-	17,379,707
Capital Assets Being Depreciated				
Land Improvements	2,090,186	286,748	-	2,376,934
Buildings	90,842,900	2,678,736	(13,612)	93,508,024
Equipment	76,204,467	6,334,959	(788,538)	81,750,888
Total Capital Assets Being Depreciated	169,137,553	9,300,443	(802,150)	177,635,846
Less Accumulated Depreciation for:				
Land Improvements	1,105,207	78,725	330	1,184,262
Buildings	50,614,616	3,199,489	(5,133)	53,808,972
Equipment	53,233,851	6,114,617	(636,037)	58,712,431
Total Accumulated Depreciation	104,953,674	9,392,831	(640,840)	113,705,665
Capital Assets Being Depreciated, Net	64,183,879	(92,388)	(161,310)	63,930,181
Total	$ 71,706,829	$ 9,764,369	$ (161,310)	$ 81,309,888

Construction in process at December 31, 2013 and 2012, relates principally to the construction of a $25 million project to expand the emergency room department and make significant other improvements. The project is funded by a voter passed referendum which allowed the Organization to borrow $25 million to finance the construction and related costs, as detailed in Note 7. The bond issue is to be serviced with revenues from the existing dedicated 7-mill property tax.

Note 12. Louisiana Medicaid Collaboration and Cooperative Endeavor Agreements

The Organization routinely provides a substantial amount of uncompensated care to patients in its service area. For the years ended December 31, 2013 and 2012, management estimated that the total costs associated with providing uncompensated care were in excess of $12 million and $10 million, respectively.

To improve or expand allowable healthcare services for Medicaid beneficiaries or low-income, uninsured patients, during 2013 and 2012, the Organization entered into a series of collaborative agreements and cooperative endeavors designed to allow additional Medicaid funds for providing these services in the community. These agreements are detailed below:

West Jefferson Medical Center Cooperative Endeavor Agreement. On November 29, 2011, the Organization entered into a cooperative endeavor agreement West Jefferson Medical Center (WJMC) (a Louisiana hospital service district) and eleven other participating Louisiana hospital services districts (HSDs). The Centers for Medicare and Medicaid Services (CMS) has previously approved Medicaid State Plan Amendments (SPA), submitted by the Louisiana Department of Health and Hospitals (DHH), which provides for reimbursement to non-rural, non-state public hospitals up to the Medicare inpatient upper payment limits.

Under this agreement, WJMC has agreed to cooperate in the establishment of a funding program by contributing a portion of the upper payment limit (UPL) payments that result from SPAs to the other HSDs, including Slidell Memorial Hospital, for the purpose of ensuring adequate and essential healthcare services are accessible and available to low-income and/or indigent citizens and medically underserved non-rural populations in Louisiana in a manner defined in the agreement. Funding for each participating hospital service district is based upon a formula utilizing each districts' reported Medicaid patient days. The term of this agreement is one year with automatic renewals for additional terms of one year unless earlier terminated.

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

Physicians' UPL Agreement with the Louisiana Department of Health and Hospitals (DHH). On December 8, 2011, the Organization entered in to an agreement with DHH which was approved by CMS. Under the program DHH began making payments under the Physician's Supplemental Payment Program for non-state owned public hospitals (HSD's) for dates of service effective July 1, 2010. The purpose of this program is to enhance payments to physicians employed or contracted by the public hospitals. Slidell Memorial Hospital agreed to transfer funds to DHH to be used as Medicaid matching funds for the purpose of making physician supplemental payments and providing the State with additional resources to assist in the medical costs to the State.

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

Physicians' UPL Agreement with the Louisiana Department of Health and Hospitals (DHH) (Continued). These matching funds are comprised of (1) an amount to be utilized as the "non-federal share" of the supplemental payments for services provided by the identified physician, and other healthcare professionals and (2) the "state retention amount," which is fifteen percent of the "non-federal share", for the State to utilize in delivering healthcare services. In turn, DHH agrees to make supplemental Medicaid payments to the Hospital. The supplemental payments include the "non-federal share" and the "federal funds" generated by the "non-federal share" payments. The total amount of the supplemental payments is intended to represent the difference between the Medicaid payments otherwise made to these qualifying providers and the Average Community Rate for these services.

Summary. During 2013, in accordance with the funding provisions of the above agreements, the Organization recognized $2,144,631 as an offset to Medicaid contractual adjustments resulting in a corresponding increase in net patient service revenue. Payments to DHH in conjunction with the Low Income and Needy Care Collaboration Agreement totaled $3,038,475 which is being amortized monthly over the effective term of the agreement. A total of $3,925,145 was recognized as other direct expenses during 2013, with the remainder of $1,307,617 included on the Organization's statement of net position as of December 31, 2013 in prepaid expenses. The Organization also recognized $208,230 as other direct expenses, funds paid or payable to DHH under the terms of the Physicians' UPL agreement during 2013 as income was recognized from the Medicaid Supplemental Payments.

During 2012, in accordance with the funding provisions of the above agreements, the Organization recognized $2,301,469 as an offset to Medicaid contractual adjustments resulting in a corresponding increase in net patient service revenue. Payments to DHH in conjunction with the Low Income and Needy Care Collaboration Agreement totaled $3,827,139 which is being amortized monthly over the effective term of the agreement. A total of $1,632,852 was recognized as other direct expenses during 2012, with the remainder of $2,194,287 included on the Organization's statement of net position as of December 31, 2012 in prepaid expenses. The Organization also recognized $99,211 as other direct expenses, funds paid or payable to DHH under the terms of the Physicians' UPL agreement during 2012 as income was recognized from the Medicaid Supplemental Payments.

Note 13. Combining Blended Component Unit Information

The following tables include condensed combining statements of net position information for the Hospital and its component units as of December 31, 2013 and 2012:

	December 31, 2013					
	Slidell Memorial Hospital	Slidell Memorial Hospital Foundation, Inc.	SMH Physician Practice Services, Inc.	Slidell Radiation Center, Inc.	Eliminations	Total
Current Assets	$ 71,154,273	$ 169,135	$ -	$ 37,756	$ (5,273,234)	$ 66,087,930
Assets Whose Use is Limited	11,710,905	322,559	-	-	-	12,033,464
Capital Assets, Net	99,934,973	-	-	-	-	99,934,973
Other Assets, Net	47,764	-	-	-	(37,756)	10,008
Deferred Outflows of Resources	425,117	-	-	-	-	425,117
Total Assets and Deferred Outflows of Resources	$ 183,273,032	$ 491,694	$ -	$ 37,756	$ (5,310,990)	$ 178,491,492
Current Liabilities	$ 18,535,455	$ 4,269	$ 5,268,965	$ -	$ (5,273,234)	$ 18,535,455
Long-Term Debt - Less Amounts Due Within One Year	91,495,579	-	-	-	-	91,495,579
Net Position	73,241,998	487,425	(5,268,965)	37,756	(37,756)	68,460,458
Total Net Position	73,241,998	487,425	(5,268,965)	37,756	(37,756)	68,460,458
Total Liabilities and Net Position	$ 183,273,032	$ 491,694	$ -	$ 37,756	$ (5,310,990)	$ 178,491,492

	December 31, 2012					
	Slidell Memorial Hospital	Slidell Memorial Hospital Foundation, Inc.	SMH Physician Practice Services, Inc.	Slidell Radiation Center, Inc.	Eliminations	Total
Current Assets	$ 73,954,255	$ 136,412	$ -	$ 37,909	$ (5,271,569)	$ 68,857,007
Assets Whose Use is Limited	19,622,225	234,700	-	-	-	19,856,925
Capital Assets, Net	81,309,888	-	-	-	-	81,309,888
Other Assets, Net	137,909	-	-	-	(37,909)	100,000
Deferred Outflows of Resources	466,932	-	-	-	-	466,932
Total Assets and Deferred Outflows of Resources	$ 175,491,209	$ 371,112	$ -	$ 37,909	$ (5,309,478)	$ 170,590,752
Current Liabilities	$ 16,819,292	$ 2,604	$ 5,268,965	$ -	$ (5,271,569)	$ 16,819,292
Long-Term Debt - Less Amounts Due Within One Year	84,355,713	-	-	-	-	84,355,713
Net Position	74,316,204	368,508	(5,268,965)	37,909	(37,909)	69,415,747
Total Liabilities and Net Position	$ 175,491,209	$ 371,112	$ -	$ 37,909	$ (5,309,478)	$ 170,590,752

Note 13. Combining Blended Component Unit Information (Continued)

The following table include condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its component units for the years ended December 31, 2013:

	Year Ended December 31, 2013					
	Slidell Memorial Hospital	Slidell Memorial Hospital Foundation, Inc.	SMH Physician Practice Services, Inc.	Slidell Radiation Center, Inc.	Eliminations	Total
Revenues						
Net Patient Service Revenue	$ 123,924,574	$ -	$ -	$ -	$ -	$ 123,924,574
Other Revenue	4,132,823	217,123	-	-	(57,421)	4,292,525
Total Revenues	128,057,397	217,123	-	-	(57,421)	128,217,099
Operating Expenses						
Salaries and Wages	55,172,321	-	-	-	(705)	55,171,616
Employee Benefits	11,567,154	-	-	-	-	11,567,154
Supplies and Materials	27,075,074	851	-	-	-	27,075,925
Other Direct Expenses	18,529,471	97,525	-	-	(75,714)	18,551,282
Professional Fees	4,484,602	-	-	-	18,998	4,503,600
Purchased Services	5,626,126	1,860	-	-	-	5,627,986
Depreciation and Amortization	8,849,449	-	-	-	-	8,849,449
Total Operating Expenses	131,304,197	100,236	-	-	(57,421)	131,347,012
Operating (Loss) Income	(3,246,800)	116,887	-	-	-	(3,129,913)
Non-Operating Revenues (Expenses)						
Interest Income	236,038	2,030	-	-	-	238,068
Interest Expense	(2,220,190)	-	-	-	-	(2,220,190)
Property Tax Revenue	4,121,882	-	-	-	-	4,121,882
Other	34,864	-	-	(153)	153	34,864
Total Non-Operating Revenues, Net	2,172,594	2,030	-	(153)	153	2,174,624
Change in Net Position	(1,074,206)	118,917	-	(153)	153	(955,289)
Net Position, Beginning of Year	74,316,204	368,508	(5,268,965)	37,909	(37,909)	69,415,747
Net Position, End of Year	$ 73,241,998	$ 487,425	$ (5,268,965)	$ 37,756	$ (37,756)	$ 68,460,458

Note 13. Combining Blended Component Unit Information (Continued)

The following table include condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its component units for the years ended December 31, 2012:

	Year Ended December 31, 2012					
	Slidell Memorial Hospital	Slidell Memorial Hospital Foundation, Inc.	SMH Physician Practice Services, Inc.	Slidell Radiation Center, Inc.	Eliminations	Total
Revenues						
Net Patient Service Revenue	$ 120,083,827	$ -	$ -	$ -	$ (4,166)	$ 120,079,661
Other Revenue	5,258,998	137,319	-	-	(62,044)	5,334,273
Total Revenues	125,342,825	137,319	-	-	(66,210)	125,413,934
Operating Expenses						
Salaries and Wages	52,486,689	-	-	-	(1,600)	52,485,089
Employee Benefits	11,040,631	-	-	-	-	11,040,631
Supplies and Materials	26,298,332	901	-	-	127	26,299,360
Other Direct Expenses	15,927,074	96,613	-	-	(67,737)	15,955,950
Professional Fees	4,224,719	-	-	-	3,000	4,227,719
Purchased Services	5,136,968	12,458	-	-	-	5,149,426
Depreciation and Amortization	9,392,832	-	-	-	-	9,392,832
Total Operating Expenses	124,507,245	109,972	-	-	(66,210)	124,551,007
Operating Income	835,580	27,347	-	-	-	862,927
Non-Operating Revenues (Expenses)						
Interest Income	428,060	2,046	-	-	-	430,106
Interest Expense	(2,153,824)	-	-	-	-	(2,153,824)
Property Tax Revenue	3,614,955	-	-	-	-	3,614,955
Other	(120,805)	-	-	(509)	509	(120,805)
Total Non-Operating Revenues, Net	1,768,386	2,046	-	(509)	509	1,770,432
Change in Net Position	2,603,966	29,393	-	(509)	509	2,633,359
Net Position, Beginning of Year as Previously Reported	71,964,960	339,115	(5,268,965)	38,418	(38,418)	67,035,110
Cummulative Effect of Change from Adoption of Accounting Principle	(252,722)	-	-	-	-	(252,722)
Net Position, Beginning of Year as Restated	71,712,238	339,115	(5,268,965)	38,418	(38,418)	66,782,388
Net Position, End of Year	$ 74,316,204	$ 368,508	$ (5,268,965)	$ 37,909	$ (37,909)	69,415,747

Note 13. Combining Component Unit Information (Continued)

The following tables include condensed combining statements of cash flow information for the Organization and its component units for the years ended December 31, 2013 and 2012:

	Year Ended December 31, 2013					
	Slidell Memorial Hospital	Slidell Memorial Hospital Foundation, Inc.	SMH Physician Practice Services, Inc.	Slidell Radiation Center, Inc.	Eliminations	Total
Net Cash Provided by Operating Activities	$ 5,926,829	$ 117,052	$ -	$ (153)	$ -	$ 6,043,728
Net Cash Provided by Non-Capital Financing Activities	34,864	-	-	-	-	34,864
Net Cash Used in Capital and Related Financing Activities	(18,423,665)	-	-	-	-	(18,423,665)
Net Cash Provided by (Used in) Investing Activities	8,369,181	(85,829)	-	-	-	8,283,352
Change in Cash and Cash Equivalents	(4,092,791)	31,223	-	(153)	-	(4,061,721)
Cash and Cash Equivalents Beginning of Year	42,215,927	136,412	-	37,909	-	42,390,248
End of Year	$ 38,123,136	$ 167,635	$ -	$ 37,756	$ -	$ 38,328,527

	Year Ended December 31, 2012					
	Slidell Memorial Hospital	Slidell Memorial Hospital Foundation, Inc.	SMH Physician Practice Services, Inc.	Slidell Radiation Center, Inc.	Eliminations	Total
Net Cash Provided by (Used in) Operating Activities	$ 9,805,362	$ 27,570	$ -	$ (509)	$ -	$ 9,832,423
Net Cash Provided by Non-Capital Financing Activities	13,072	-	-	-	-	13,072
Net Cash Used in Capital and Related Financing Activities	(5,095,368)	-	-	-	-	(5,095,368)
Net Cash Provided by (Used in) Investing Activities	(5,571,694)	96,326	-	-	-	(5,475,368)
Change in Cash and Cash Equivalents	(848,628)	123,896	-	(509)	-	(725,241)
Cash and Cash Equivalents Beginning of Year	43,064,555	12,516	-	38,418	-	43,115,489
End of Year	$ 42,215,927	$ 136,412	$ -	$ 37,909	$ -	$ 42,390,248

Note 14. Deferred Outflows of Resources

The Hospital has recorded deferred outflows of resources of $425,117 and $466,932 at December 31, 2013 and 2012, respectively, related to deferred bond losses resulting from refunding bond issuances.

Note 15. Current Economic Conditions

The current economic conditions continue to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large declines and unanticipated declines in the fair value of investments and other assets, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Unemployment rates have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, including allowances for accounts receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Note 16. Subsequent Events

In January 2014 the Hospital issued $8,465,000 of Revenue and Refunding Bonds Series 2014 to refund the remaining Series 2004 General Obligation Bonds disclosed in Note 7.

See also Note 7 for details of forgiveness of debt involving the Hospital's special community disaster loan.

SUPPLEMENTARY INFORMATION

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

Schedule of Compensation paid to Board of Commissioners
For the Year Ended December 31, 2013

Commissioner		Compensation
Dr. Kumar Amaraneni, MD		$ 2,700
Mr. Larry P. Englande	Chairman	2,025
Mr. Dan Ferrari		2,325
Dr. Thomas Hall, MD		1,500
Dr. Walter J. Lane	Secretary/Treasurer	2,100
Mr. David G. Mannella		2,100
Mr. Daniel A. McGovern, IV	Vice-Chairman	2,625
Dr. Michael Casey, MD		75
Dr. Clinton Sharp, MD		1,800
Total		$ 17,250

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of St. Tammany Parish Hospital Service District No. 2 (d/b/a Slidell Memorial Hospital) (the Organization) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated April 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

LaPorte

A Professional Accounting Corporation

Metairie, LA
April 21, 2014

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

Summary Schedule of the Current Status of Prior Years' Audit Findings
For the Year Ended December 31, 2013

STATUS OF FINDINGS FROM PRIOR YEARS' AUDITS

NONE