

LOUISIANA CHILDREN'S MEDICAL CENTER

Consolidated Financial Statements

December 31, 2012 and 2011



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Consolidated Financial Statements

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Independent Auditor's Report

To the Governing Board of Trustees
Louisiana Children's Medical Center

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Louisiana Children's Medical Center (LCMC) (the System) which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 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 consolidated financial statements

NEW ORLEANS HOUSTON BATON ROUGE COVINGTON

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LCMC as of December 31, 2012 and 2011, and the results of operations, changes in net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

As described in Note 1 to the consolidated financial statements, in 2012, LCMC changed its method of presentation and disclosure of patient service revenue, provision for doubtful accounts, and the allowance for doubtful accounts in accordance with Accounting Standards Update 2011-07.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

March 25, 2013

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidated Balance Sheets
December 31, 2012 and 2011 (in Thousands)

| | 2012 | 2011 |
|--|---------------------|---------------------|
| Assets | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 47,101 | \$ 9,828 |
| Assets Limited as to Use | 2,219 | 2,356 |
| Patient Accounts Receivable, Net of Allowance for Doubtful Accounts of \$17,238 and \$13,483, in 2012 and 2011, Respectively | 66,478 | 53,282 |
| Other Receivables | 12,408 | 6,751 |
| Inventories | 12,255 | 10,627 |
| Prepaid Expenses and Other Assets | 5,299 | 4,995 |
| Total Current Assets | 145,760 | 87,839 |
| Assets Limited as to Use | | |
| Designated for Capital Projects and Specific Programs | 746,936 | 696,166 |
| Restricted by Bond Indenture, Debt Service Reserve | 10,113 | 14,042 |
| Donor-Restricted Long-Term Investments | 13,466 | 12,100 |
| Restricted Other | 627 | 623 |
| Less: Amount Required for Current Obligations | (2,219) | (2,356) |
| | 768,923 | 720,575 |
| Property, Plant and Equipment, Net | 237,662 | 235,642 |
| Other Assets | 3,511 | 3,071 |
| Total Assets | \$ 1,155,856 | \$ 1,047,127 |

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

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidated Balance Sheets (Continued)
December 31, 2012 and 2011 (in Thousands)

| | 2012 | 2011 |
|--|---------------------|---------------------|
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Trade Accounts Payable | \$ 27,778 | \$ 26,407 |
| Accrued Salaries and Wages | 20,792 | 19,738 |
| Current Maturities of Bonds Payable | 1,985 | 1,815 |
| Capital Lease Obligations | - | 1,138 |
| Current Portion of Estimated Employee Health and Workers' Compensation Claims | 4,608 | 4,103 |
| Current Portion of Estimated Professional Liabilities Claims | 3,725 | 3,070 |
| Estimated Third-Party Payor Settlements, Net | 17,585 | 11,993 |
| Other | 12,189 | 9,475 |
| | <hr/> | |
| Total Current Liabilities | 88,662 | 77,739 |
| | | |
| Bonds Payable, Net of Current Portion | 72,608 | 74,637 |
| Estimated Workers' Compensation Claims, Net of Current Portion | 1,880 | 1,657 |
| Estimated Professional Liability Claims, Net of Current Portion | 5,828 | 6,422 |
| Employee Benefits | 20,397 | 17,929 |
| | <hr/> | |
| Total Liabilities | 189,375 | 178,384 |
| | | |
| Noncontrolling Interest | 761 | 623 |
| | <hr/> | |
| Net Assets | | |
| Unrestricted | 949,703 | 853,332 |
| Temporarily Restricted | 8,180 | 6,871 |
| Permanently Restricted | 7,837 | 7,917 |
| | <hr/> | |
| Total Net Assets | 965,720 | 868,120 |
| | <hr/> | |
| Total Liabilities and Net Assets | \$ 1,155,856 | \$ 1,047,127 |
| | <hr/> <hr/> | |

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

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidated Statements of Operations
For the Years Ended December 31, 2012 and 2011 (in Thousands)

| | 2012 | 2011 |
|--|------------------|-------------------|
| Unrestricted Revenues, Gains and Other Support | | |
| Net Patient Service Revenues | \$ 512,063 | \$ 450,181 |
| Provision for Doubtful Accounts | 16,122 | 14,472 |
| Net Patient Service Revenues less Provisions for Doubtful Accounts | 495,941 | 435,709 |
| Other Operating Revenues | 28,092 | 28,012 |
| Total Operating Revenues | 524,033 | 463,721 |
| Operating Expenses | | |
| Employee Compensation and Benefits | 243,636 | 231,683 |
| Purchased Services | 83,245 | 84,520 |
| Professional Fees | 21,033 | 24,747 |
| Supplies and Other Expenses | 97,631 | 84,636 |
| Depreciation and Amortization | 27,864 | 27,142 |
| Impairment Losses | 42 | 44 |
| Interest | 2,237 | 3,920 |
| Total Operating Expenses | 475,688 | 456,692 |
| Income from Operations | 48,345 | 7,029 |
| Investment Income | 82,501 | 5,596 |
| Other Nonoperating Income | 710 | 543 |
| Community Support, Net | (36,108) | (16,532) |
| Increase (Decrease) in Unrestricted Net Assets | 95,448 | (3,364) |
| Noncontrolling Interests in (Loss) Income of Consolidating Subsidiaries | (261) | 21 |
| Increase (Decrease) in Unrestricted Net Assets Before Other Changes | 95,187 | (3,343) |
| Adjustment to Pension Liability | 1,184 | (5,621) |
| Increase (Decrease) in Unrestricted Net Assets | \$ 96,371 | \$ (8,964) |

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

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2012 and 2011 (in Thousands)

| | 2012 | 2011 |
|--|-------------------|-------------------|
| Unrestricted Net Assets | | |
| Increase (Decrease) in Unrestricted Net Assets | \$ 96,371 | \$ (8,964) |
| Temporarily Restricted Net Assets | | |
| Contributions | 5,505 | 5,058 |
| Investment Income | 1,199 | 62 |
| Net Assets Released from Restrictions | <u>(5,395)</u> | <u>(5,485)</u> |
| Increase (Decrease) in Temporarily Restricted Net Assets | 1,309 | (365) |
| Decrease in Permanently Restricted Net Assets | <u>(80)</u> | - |
| Increase (Decrease) in Net Assets | 97,600 | (9,329) |
| Net Assets, Beginning of Year | <u>868,120</u> | <u>877,449</u> |
| Net Assets, End of Year | <u>\$ 965,720</u> | <u>\$ 868,120</u> |

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

LOUISIANA CHILDREN'S MEDICAL CENTER
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011 (in Thousands)

| | 2012 | 2011 |
|---|------------------|-----------------|
| Cash Flows from Operating Activities | | |
| Increase (Decrease) in Net Assets | \$ 97,600 | \$ (9,329) |
| Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities | | |
| Adjustment to Pension Liability | (1,184) | 5,621 |
| Noncontrolling Interest in Income (Loss) of Consolidated Subsidiaries | 261 | (21) |
| Depreciation and Amortization | 29,509 | 28,880 |
| Net (Loss) Gain on Disposal/Sale of Assets | (1,043) | 294 |
| Impairment Losses | 42 | 44 |
| Provision for Doubtful Accounts | 16,122 | 14,472 |
| Change in Operating Assets and Liabilities | | |
| Increase in Patient Accounts Receivable | (29,318) | (21,095) |
| Increase in Other Receivables | (26,613) | (2,192) |
| Increase in Inventory | (1,629) | (505) |
| (Increase) Decrease in Other Current Assets | (304) | 834 |
| (Increase) Decrease in Investments Limited as to Use | (48,210) | 11,126 |
| (Increase) Decrease in Other Assets | (502) | 234 |
| Increase in Trade Accounts Payable | 1,370 | 950 |
| Increase in Accrued Salaries and Wages | 1,054 | 1,380 |
| Increase in Third-Party Payor Settlements | 5,592 | 10,430 |
| Increase (Decrease) in Other Liabilities | 28,112 | (1,682) |
| Net Cash Provided by Operating Activities | 70,859 | 39,441 |
| Cash Flows from Investing Activities | | |
| Capital Expenditures | (31,062) | (33,409) |
| Proceeds from Sale of Assets | 642 | 329 |
| Net Cash Used in Investing Activities | (30,420) | (33,080) |
| Cash Flows from Financing Activities | | |
| Payments on Capital Lease Obligations | (1,139) | (1,407) |
| Repayments of Bonds Payable | (1,905) | (10,690) |
| Distributions Paid to Noncontrolling Interests | (122) | (116) |
| Net Cash Used in Financing Activities | (3,166) | (12,213) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 37,273 | (5,852) |
| Cash and Cash Equivalents, Beginning of Year | 9,828 | 15,680 |
| Cash and Cash Equivalents, End of Year | \$ 47,101 | \$ 9,828 |
| Supplemental Disclosures of Cash Flow Information | | |
| Cash Paid for Interest | \$ 4,494 | \$ 5,082 |
| Property, Plant and Equipment Purchases in Accounts Payable | \$ 1,753 | \$ 1,957 |

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

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Organization

Louisiana Children's Medical Center (LCMC) (the System) is a Louisiana non-stock, not-for-profit corporation that was incorporated in 2009. Through a Health Care System Agreement (System Agreement) between LCMC, Children's Hospital, a Louisiana not-for-profit corporation (Children's) and Touro Infirmary, a Louisiana not-for-profit corporation (Touro), these parties have determined that together they can provide a two-hospital not-for-profit community-based hospital system that will provide a continuum of care to the families of the Gulf South region.

Children's is Louisiana's only community-based, not-for-profit, full-service hospital operated exclusively for children. Children's is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (Code). LCMC is the sole member of Children's. Children's has two affiliates, the Children's Hospital Medical Practice Corporation (CHMPC) and the Children's Hospital Anesthesia Corporation.

Children's is located in New Orleans, Louisiana and includes a 247-bed medical center providing care for infants, children and adolescents from birth to 21 years of age. It provides inpatient services in all pediatric, medical, surgical, and psychiatric subspecialties with a staff of more than 440 physicians. Outpatient services are provided in 58 subspecialties. Children's provides a large array of community benefit programs, wellness programs, research activities, and special programs for the handicapped and medically underserved. CHMPC was incorporated on February 6, 1996, to manage pediatric physician practices in a high-quality, cost-effective manner. A division of CHMPC, Kids First, emphasizes providing pediatric care in medically underserved geographical areas. Children's Hospital Anesthesia Corporation was incorporated on June 30, 2000, to provide high-quality, hospital, comprehensive anesthesia services. Children's and its affiliates are hereinafter collectively referred to as the Children's Group.

Touro is a community-based, not-for-profit, faith-based hospital located in New Orleans, Louisiana. Touro is exempt from taxation under the Code.

Touro is the sole member of Woldenberg Village, Inc. (Woldenberg), and Touro Infirmary Foundation (Foundation), both of which are non-stock, not-for-profit and tax exempt corporations. In addition, Touro is the sole stockholder of Crescent City Physicians, Inc., a for-profit corporation; and holds a 17.5% direct interest and 48.5% indirect interest (through Woldenberg) in TIJV, LLC, a for-profit limited liability company. Metrolab, Inc., a wholly owned for-profit subsidiary was dissolved in 2011; and, therefore was not included in the consolidation of the 2011 financial statements. The effect of this transaction is immaterial to the financial statements as a whole and is included within other non-operating losses within the consolidated statement of operations.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Organization (Continued)

The Foundation performs the fundraising function for Touro. Woldenberg operates a 120-bed nursing home, a 60-unit assisted living facility, and a 60-unit independent living facility. Crescent City Physicians, Inc. operates physician medical practices. Touro also owns a majority of the Buckman Medical Office Building and fully owns the Delachaise Street Garage (Buckman Complex), as well as condominium units and a parking garage in the Touro Medical Office Building, and the building formerly known as St. Charles General Hospital and parking garage, with a majority ownership of suites in the adjacent medical office building.

Each of the foregoing, collectively with Touro, are hereinafter referred to as the Touro Group.

Within this system, LCMC functions as the System Parent and sole member of Children's and the sole member of Touro, and any entity within the Touro Group of which Touro is the sole member, with reserve powers to be exercised to promote the best interests of the system and its affiliates. LCMC, the Touro Group and the Children's Group are hereinafter collectively referred to as the System.

The System became operational on July 14, 2009, and as a result, LCMC became the sole corporate member of both the Touro Group and the Children's Group, as mentioned above. The Touro Group will remain a Jewish faith-based organization, retain its name and community reputation, and continue as a major medical center and "hub" for tertiary and quaternary care. Similarly, the Children's Group will continue to maintain excellence in providing cutting-edge pediatric care and be the leading pediatric academic medical center in the Gulf South region.

The consolidated financial statements of LCMC include the activities of LCMC, the Children's Group and the Touro Group. All significant intercompany transactions have been eliminated in consolidation.

All corporate powers of the Touro Group and the Children's Group are vested in the Board of Trustees of LCMC.

Use of Estimates

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

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with a remaining maturity of three months or less when purchased, excluding assets whose use is limited.

Contributions and Donor-Restricted Gifts

The System records contributions receivable in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic, *Accounting for Contributions Received and Contributions Made*, which requires the System to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the condition is met or the gift is received. Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When an externally-imposed restriction expires or unrestricted contributions are realized, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Temporarily restricted gifts greater than \$100,000 used to purchase a depreciable asset are reclassified as unrestricted net assets over the same period of time that the related asset is being depreciated. In accordance with the Louisiana Uniform Prudent Management of Institutional Funds Act (UPMIFA), permanently restricted gifts are reclassified as either unrestricted or temporarily restricted if (i) the value of the gift does not exceed \$100,000; (ii) twenty or more years have elapsed since the gift was received; and (iii) the purpose of the restriction is unlawful, impracticable, impossible, or wasteful.

Contributions for which the restrictions are met in the same period in which the unconditional promise to give is received are recorded as unrestricted revenue in the accompanying consolidated financial statements.

Assets Whose Use is Limited or Restricted

Assets whose use is limited primarily include assets held by trustees under indenture agreements, investments restricted by donors, and designated assets set aside by the Board of Trustees (the Board) for future capital improvements and commitments, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Assets whose use is limited are invested in mutual funds, debt securities and marketable equity securities, interest rate futures, options contracts, and money market accounts. These securities are classified as trading and are stated at fair value in the consolidated balance sheet, based on quoted market prices. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in unrestricted revenues, gains, and other support unless the income or loss is restricted by donor or law. See Note 3 for further details.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Assets Whose Use is Limited or Restricted (Continued)

Restricted other assets consist of certificates of deposit held by the Workers' Compensation Fund as collateral against the self-insured portion of claims and cash held in trust for residents at Woldenberg.

Inventories

Inventories are stated at the lower of first-in, first-out cost or market at the balance sheet date. Children's states its inventories at market value at the date of the balance sheet.

Property, Plant and Equipment

Property, plant, and equipment are stated at cost, except for assets donated to the System. Donated assets are recorded at their estimated fair value at the date of donation. Depreciation and amortization, which includes amortization of assets under capital lease, are computed on the straight-line basis over the estimated useful lives, or shorter of useful life or lease term for capital leases, as follows:

| | |
|--------------------------|---------------|
| Land Improvements | 10 - 20 Years |
| Buildings | 15 - 40 Years |
| Fixed Equipment | 10 - 20 Years |
| Major Moveable Equipment | 3 -10 Years |

Impairment of Long-Lived Assets

The System reviews its long-lived assets, including property and equipment and other intangibles, for impairment and determines whether an event or change in facts and circumstances indicates that their carrying amount may not be recoverable.

The System determines recoverability of the assets by comparing the carrying amount of the asset to net future undiscounted cash flows that the asset is expected to generate or estimated fair values in the case of nonrevenue generating assets. The impairment loss recognized is the amount by which the carrying amount exceeds the fair market value of the asset. See Note 16 for discussion of impairment losses on Woldenberg.

Estimated Workers' Compensation, Professional Liability, and Employee Health Claims

The System records the provisions for estimated medical, professional and general liability and workers' compensation claims based upon actual claims reported, combined with an estimate of claims incurred but not reported based upon past experience. Claims expense is reduced by amounts recoverable through stop-loss insurance purchased by the System. Estimates recorded for these self-insured liabilities incorporate the System's past experience, as well as other considerations including the nature of claims, industry data, relevant trends and/or the use of actuarial information.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use is limited by donors to a specific time period or purpose. Temporarily restricted net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity.

Net Patient Service Revenues and Related Receivables

Net patient service revenues and receivables are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. The System provides care to patients even if they lack adequate insurance coverage or are covered by contractual payment arrangements that do not pay full charges. The payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations are based on per diem rates or discounts from established charges.

Patients Accounts Receivable

Children's:

Patient accounts receivables are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, Children's analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, Children's analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes patients without insurance who are not covered by Children's charity care programs and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted are charged off against the allowance for doubtful accounts.

Children's total provision for bad debts increased from \$4,313,000 for the year ended December 31, 2011 to \$6,415,000 for the year ended December 31, 2012, with the increase being attributed to an increase in self pay patient volumes.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenues and Related Receivables (Continued)

Patients Accounts Receivable (Continued)

Touro:

Patients accounts receivables are reduced by an allowance for doubtful accounts. In establishing its estimate of collectability of accounts receivable, the Hospital analyzed its past history and collection patterns of its major payor sources of revenue.

For receivables associated with services provided to patients who have third-party coverage, the Hospital estimates, based upon experience, an allowance on the overall value of the receivables at any given point in time adjusting the accounting to reflect these new estimates each month. These estimates are adjusted monthly for volume and service mix and annually for rate increases.

For receivables associated with self-pay patients (which includes both patients without insurance who are not covered by the Hospital's Charity Care Program and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. The Hospital has created a collection model of the patterns of collectability that is based upon the theory of an inverse relationship between age of the debt and its collectability. To estimate the appropriate allowance for doubtful accounts and provision for bad debts, a mathematical algorithm based on account type (pure self pay versus self pay after insurance) and age is applied to all accounts.

Touro's total provision for bad debts decreased from \$10,159,000 for the year ended December 31, 2011 to \$9,707,000 for the year ended December 31, 2012.

Deferred Financing Costs

Deferred financing costs, which are included in other assets, are amortized over the period the obligation is outstanding, using a method that approximates the interest method. Deferred financing costs total approximately \$2,500,000 at December 31, 2012 and 2011, respectively, and are presented net of accumulated amortization of approximately \$1,225,000 and \$1,173,000, at December 31, 2012 and 2011, respectively.

Advertising Expenses

The System expenses advertising costs as incurred. Advertising expense was approximately \$855,000 and \$1,398,000 for the years ended December 31, 2012 and 2011, respectively.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Grants and Contributions

From time to time, the System receives grants and contributions from individuals or private and public entities. Revenues from grants and contributions (including contributions of capital assets) are recognized when all of the eligibility requirements, including time requirements, are met, and when there is reasonable assurance that the grants or contributions will be received. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts are recorded as either operating revenue or non-operating revenue dependent upon how the transaction is classified on the consolidated statement of cash flows. Cash flows that do not meet the reporting criteria for investing, capital financing or non capital financing would be reported as operating activities, with their associated revenue reported as operating revenue within the consolidated statement of operations.

Community Benefit

In the furtherance of its charitable purpose, Touro provides a wide variety of benefits to the community which it serves. Such benefits include health screenings, in-home caregiver services, and seminars on a variety of health topics that are relevant to the health needs of the community, such as healthy eating, diabetes management, healthy aging and cancer support and survivorship programs. Touro offers counseling for patients and families, a variety of cancer support groups and supportive cancer care services, pastoral care, the donation of space for use by community groups, health enhancement and wellness programs, classes on specific medical conditions, and telephone information services. Touro staff support area nonprofits and community groups to offer health information and health screenings at community events. The Hospital partners with other healthcare nonprofits to provide healthcare information and education resources to the community. The Hospital provides clinical training to students annually in a variety of training programs and specialties, including medical student and post graduate medical training in various specialties. The Hospital is also a clinical training site for allied health programs for various metropolitan colleges and provides rehabilitation therapy training to students from colleges across the country. Touro also provides a broad range of clinical services to economically disadvantaged patients, both inpatient and outpatient, through outpatient clinics. In addition, Touro's Governing Board and management work closely with local civic leaders to address the health care needs of the community.

Touro also provides medical care without charge or at reduced costs to residents of its community through the provision of charity care.

Children's also renders a significant amount of care to patients from whom no collections are expected through its Children's Healthcare Assistance Plan ("CHAP"). The CHAP associated costs are not included in the System's operating income, but rather as community support on the consolidated statements of operations, see Note 18.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Community Benefit (Continued)

During the years ended December 31, 2012 and 2011, estimated costs associated with charity care services provided by Touro were approximately \$4,452,000 and \$5,067,000, respectively. Estimated costs of charity care services provided are determined based on Touro's average cost to charge ratio and total charges for provided services determined to qualify as charity care.

During the years ended December 31, 2012 and 2011, estimated costs associated with charity care services provided by Children's were approximately \$6,445,000 and \$5,266,000, respectively. Charity care costs are determined by assigning direct costs to charity care programs and by complementing the direct costs with estimates determined based off of Medicaid and Medicare cost report methodologies.

Derivatives and Financial Instruments

The System uses interest rate swap and basis swap agreements to manage interest costs and the risk associated with changing interest rates. While the System's primary objective for the use of these instruments is to manage its cash flow requirements, unrealized gains and losses in the fair value of such instruments are reflected in investment income or loss in the consolidated statement of operations in accordance with the *Accounting for Derivative Instruments and Hedging Activities* Topic of the FASB ASC.

New Accounting Pronouncements

Effective January 1, 2012, the System adopted the provisions of Accounting Standards Update (ASU) 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provisions for Bad Debts and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU 2011-07 requires the presentation of the provision for doubtful accounts related to patient service revenue as a deduction from patient service revenue and enhancing the disclosures of the System's policies related to uncollectible accounts. This adoption was applied retrospectively to the 2011 financial statements. The effect to the 2011 statements is a reduction of net patient service revenue by \$14,472,000 of that year's provision for doubtful accounts. Total operating expenses for 2011 then decreased by the same \$14,472,000. The change had no effect on the 2011 change in net assets. The provision for doubtful accounts for the subsidiaries are included within the total allowance for doubtful accounts.

Effective January 1, 2012, the Hospital adopted ASU 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that a health care entity should not net insurance recoveries against a related claim liability. The adoption of ASU 2010-24 did not have a material impact on the 2012 and 2011 consolidated financial statements.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

Effective January 1, 2012, the Hospital adopted ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. The adoption of ASU 2011-04 did not have a material impact on the 2012 and 2011 consolidated financial statements.

Effective January 1, 2011, the Hospital adopted ASU 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*, which requires that costs be used as the measurement basis of charity care disclosures and that cost be identified as the direct and indirect cost of providing the charity care. The adoption of ASU 2010-23 resulted in additional disclosures included in Note 1.

Effective January 1, 2011, the Hospital adopted ASU 2010-06, which amends Fair Values (Topic 954), to add new disclosure requirements about recurring and non-recurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The adoption of ASU 2010-06 did not have a material impact on the 2012 and 2011 consolidated financial statements.

Reclassifications

Certain amounts in prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Note 2. Net Patient Service Revenues

The System has arrangements with third-party payors that provide for payments to the System at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid

Children's:

Children's participates primarily in the Medicaid program as a provider of medical services to program beneficiaries. Approximately 66% and 68% of Children's gross patient service revenues were derived from program beneficiaries for the years ended December 31, 2012 and 2011, respectively. Inpatient services rendered to Medicaid patients are paid based on a prospective per diem system.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 2. Net Patient Service Revenues (Continued)

Medicare and Medicaid (Continued)

Children's (Continued):

A change in the reimbursement methodology for inpatient services became effective September 1, 2009, and according to this methodology, inpatient services are settled based on cost and subject to certain limitations.

Outpatient services rendered to Medicaid patients are reimbursed under a cost reimbursement methodology subject to certain limitations. Children's is reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports by Children's and audits thereof performed by the Medicaid fiscal intermediary.

In the context of healthcare reform, effective February 1, 2012, Louisiana Medicaid introduced Bayou Health, a state-wide managed care Medicaid initiative. In Bayou Health, Medicaid recipients enroll in one of five available plans - Amerigroup, Community Health Solutions, LaCare, Louisiana Healthcare Connections or United Healthcare Community Plan (collectively, Bayou Health Plans). These plans are all accountable to the Department of Health and Hospitals and to the State of Louisiana (State). There are differences between these plans, including their provider networks, referral policies, health management programs, services and incentives offered to participants. Medicaid recipients can choose which Bayou Health Plan to enroll into.

Children's reimbursements from Bayou Health Plans follow the same methodology as Medicaid, with the exception of Louisiana Healthcare Connections, whose contractual arrangements included prospective reimbursements for the year ended December 2012.

Since July 1, 1988, Children's has qualified as a disproportionate share provider in accordance with the State of Louisiana's Medicaid regulations and, as such, is entitled to additional payments.

The Medicaid disproportionate share regulations are established by the Louisiana Department of Health and Hospitals and are subject to review and approval by the Centers for Medicare and Medicaid Services. Children's has included approximately \$232,000 and \$995,000 for Medicaid disproportionate share revenues in net patient service revenues, for the years ended December 31, 2012 and 2011, respectively.

The Medicaid cost reports for the years 2004 through 2012 have not been final audited by the Medicaid fiscal intermediary.

Management regularly evaluates the adequacy of the recorded settlements and does not anticipate significant adverse adjustments to the recorded settlements for these cost report years. Any changes in the estimated settlements are reported as adjustments to net patient service revenues in the year the final settlements are determined. No such significant changes in estimates were recorded in 2012 or 2011.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 2. Net Patient Service Revenues (Continued)

Medicare and Medicaid (Continued)

Touro:

Touro is reimbursed under the Medicare Prospective Payment System (PPS) for acute care inpatient services provided to Medicare beneficiaries and is paid a predetermined amount for these services based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. In addition, Touro is paid prospectively for Medicare inpatient capital costs based on the federal specific rate.

Touro qualifies as a disproportionate share provider and a teaching hospital under the Medicare regulations. As such, Touro receives an additional payment for Medicare inpatients served. Except for Medicare disproportionate share and medical education reimbursement and Medicare bad debts, there is no retroactive settlement for inpatient costs under the Medicare inpatient prospective payment methodology.

Touro 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. Medicaid outpatient services such as laboratory, outpatient surgery, and rehabilitation are reimbursed based on fee schedules, while other outpatient services are reimbursed based on cost.

In the context of healthcare reform, effective February 1, 2012, Louisiana Medicaid introduced Bayou Health, a state-wide managed care Medicaid initiative. Medicaid recipients enroll in one of five available Bayou Health plans. The plans are all accountable to the Department of Health and Hospitals and to the State. There are differences between these plans, including their provider networks, referral policies, health management programs, services and incentives offered to participants. Medicaid recipients can choose which Bayou Health plan to enroll into.

Touro's reimbursements from the Bayou Health plans follow the same methodology as Medicaid; that is, DHH's objective is to continue collecting all Medicaid hospital program services and costs through the annual cost report uniformly, whether the service is covered by traditional Medicaid fee for service, a Sharing Savings Plan, or a Prepaid Plan for the year ended December 2012.

Medicare inpatient rehabilitation services are paid through the Inpatient Rehabilitation Facility Prospective Payment System. Home health services rendered to Medicare program beneficiaries are reimbursed under a per-episode prospective payment system. Outpatient services rendered to Medicare program beneficiaries are reimbursed by the Outpatient Prospective Payment System (OPPS), which establishes a number of Ambulatory Payment Classifications (APC) for outpatient procedures in which Touro is paid a predetermined amount for these procedures. Medicare and Medicaid outpatient clinical lab, physical rehab services, and Medicaid ambulatory surgery services are reimbursed based upon the respective fee schedules.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 2. Net Patient Service Revenues (Continued)

Medicare and Medicaid (Continued)

Touro (Continued):

Retroactive cost settlements based upon annual cost reports are estimated for those programs subject to retroactive settlement and recorded in the consolidated financial statements. Final determination of retroactive cost settlements to be received under the Medicare and Medicaid regulations is subject to review by program representatives. The difference between a final settlement and an estimated settlement in any year is reported as an adjustment to net patient service revenue in the year the final settlement is made. Touro's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2009. Touro's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through December 31, 2006.

Net revenues from government health care programs included in net patient service revenues approximated \$142,100,000 and \$96,000,000 for the years ended December 31, 2012 and 2011, respectively.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased in 2012 and 2011 by approximately \$3,383,000 and \$4,565,000, respectively, due to changes in estimates resulting from the removal of allowances previously estimated that are no longer necessary as a result of final settlements; years that are no longer subject to audits, reviews, or investigations; revision of allowance estimates recorded in prior years relating to expected retroactive adjustments; and revisions based on updated information from the fiscal intermediary.

During 2012 and 2011, Touro received approximately \$431,000 and \$399,000, respectively, from the State of Louisiana in the form of a Graduate Medical Education Supplement Payment.

The System:

Managed Care

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

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 3. Assets Limited as to Use and Investments

Assets limited as to use are investments that are accounted for in pooled asset and separately invested portfolios. Pooled assets represent funds that are invested in a commingled portfolio of assets, as opposed to the separately invested assets which have segregated investments.

At December 31, 2012 and 2011, assets limited as to use consist of the following (in thousands):

| | 2012 | 2011 |
|---|-------------------|-------------------|
| Pooled Asset Portfolio | | |
| Cash | \$ 75 | \$ 5,112 |
| U.S. Government Securities | 116 | 153 |
| Marketable Equity Securities | 435,512 | 376,436 |
| Other Fixed Income Securities | 291,600 | 284,362 |
| Mortgage-Backed Securities | 2,334 | 4,724 |
| Money Market Funds | 26,983 | 34,404 |
| Total Pooled Asset Portfolio | 756,620 | 705,191 |
| Separately Invested Portfolio | | |
| Marketable Equity Securities | 1,961 | 1,815 |
| U.S. Treasury Notes, Bonds, and Bills | 1,593 | 1,734 |
| State of Israel Bonds | 500 | 500 |
| Mortgage-Backed Securities | 685 | 731 |
| Money Market Funds, Certificates of Deposit, and Commercial Paper | 9,783 | 12,960 |
| Total Separately Invested Portfolio | 14,522 | 17,740 |
| Total | \$ 771,142 | \$ 722,931 |

At December 31, 2012 and 2011, the System maintained \$1,100,000 and \$600,000, respectively, of certificates of deposit held by the Workers' Compensation Fund as collateral against its self-insured portion of workers' compensation claims. At December 31, 2012 and 2011, the System maintained funds in trust for residents of Woldenberg of approximately \$27,000 and \$23,000, respectively.

Fair value estimates are made at a specific point in time, based on market conditions and information about the investments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The investments in marketable alternative investments are valued by management at their equity in the net assets of the investment, which approximates fair value, utilizing the net asset valuation provided by the underlying investment companies, unless management determines some other valuation is more appropriate. Such fair value estimates do not reflect early redemption penalties or redemption restrictions as the System does not intend to sell such investments before the expiration of the early redemption periods.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 3. Assets Limited as to Use and Investments (Continued)

The System has no future commitments to current or additional marketable alternative (hedge fund) managers. Some marketable alternative managers have withdrawal restrictions established upon entering their funds which limit an investor's ability to withdraw amounts as a protection for their investments. There also may be fees associated with early withdrawal that generally lapse over defined time periods. These restrictions generally allow for quarterly withdrawals; however, in no case does the withdrawal limitation extend beyond one year.

Investment income at December 31, 2012 and 2011, including both unrestricted and restricted activity, comprises the following (in thousands):

| | 2012 | 2011 |
|---|------------------|-----------------|
| Interest and Dividend Income | \$ 20,216 | \$ 17,560 |
| Net Gains (Losses) | | |
| Realized Gains on Securities | 4,835 | 18,293 |
| Unrealized (Losses) Gains on Securities | 58,649 | (30,195) |
| | <u>\$ 83,700</u> | <u>\$ 5,658</u> |

Investment income is reported net of investment fees. Investment fees were approximately \$1,175,000 and \$1,127,000, for the years ended December 31, 2012 and 2011, respectively.

Note 4. Derivative Instruments

At December 31, 2012, derivative instruments consist of the following interest rate and basis swap agreements entered into by Touro:

| Trade Date | Maturity | Notional Amount | Hedged Rate | Derivative Rate |
|--|-----------------|-----------------|--------------|------------------------------------|
| August 15, 2005 (and amended September 29, 2011) | January 1, 2015 | \$ 29,945,000 | 6.125% | Variable rate based on SIFMA Index |
| September 29, 2011 | January 1, 2015 | \$ 20,200,000 | 5.625% | Variable rate based on SIFMA Index |
| September 30, 2011 | January 1, 2015 | \$ 20,200,000 | 82% of LIBOR | 0.692% |
| September 30, 2011 | January 1, 2015 | \$ 29,645,000 | 82% of LIBOR | 0.625% |

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 4. Derivative Instruments (Continued)

In relation to the swap agreements, the System's investment income included an unrealized gain of approximately \$3,306,000 and \$3,514,000 in 2012 and 2011, respectively. Interest expense associated with the debt instruments was reduced by the gains and interest earnings from the swaps' effectiveness by approximately \$2,240,000 and \$1,264,000 in 2012 and 2011, respectively. At December 31, 2012, these agreements had a carrying value (which approximates fair value) of \$229,000 and were recorded in other receivables. At December 31, 2011, these agreements had a carrying value of approximately \$3,077,000 and were recorded in other current liabilities.

The System purchases and sells interest rate options to enhance the overall return on its investment portfolio. Interest rate options grant the purchaser, for a premium payment, the right to either purchase or sell to the writer a specified financial instrument under agreed-upon terms. The premium compensates the seller for bearing the risk of unfavorable interest rate changes. The System's options on Eurodollar futures, U.S. Treasury bond futures and U.S. Treasury notes settle in cash and generally expire within one year of inception.

Futures contracts are sold or purchased to provide incremental value and to hedge or reduce market price risks. Interest rate futures contracts are commitments to either purchase or sell designated financial instruments at a future date for a specified price and may either be settled in cash or through delivery. Futures contracts have little credit risk due to daily cash settlement of the net change of open contracts.

Futures on U.S. Treasury notes, U.S. Treasury bonds, and Eurodollar deposits are used due to their liquidity and credit risk advantages. Investments held by the System in the amount of \$1,000,000 are pledged as collateral to secure the initial margins on futures contracts purchased.

With respect to the derivative instruments held at December 31, 2012 and 2011, the System's exposure to credit-related losses in the event of nonperformance by counterparties is minimized because investment managers for the System deal almost exclusively in exchange-traded futures and options. These securities are extremely liquid, are subject to rigorous exchange and government regulation, involve limited counterparty risk, have no hidden embedded risks, and have daily available public prices.

All derivative instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous. Exposure to market risk is managed in accordance with risk limits set by the finance committee of the LCMC Board of Trustees and by monitoring performance by investment managers in accordance with specified investment guidelines.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 5. Property, Plant and Equipment

At December 31st, property, plant and equipment consisted of the following (in thousands):

| | 2012 | 2011 |
|------------------------------------|-------------------|-------------------|
| Land and Land Improvements | \$ 37,609 | \$ 37,478 |
| Leasehold Improvements | 144 | 98 |
| Buildings | 307,327 | 294,483 |
| Fixed Equipment | 143,508 | 140,048 |
| Major Moveable Equipment | 230,911 | 214,991 |
| | <u>719,499</u> | <u>687,098</u> |
| Less: Accumulated Depreciation | (486,843) | (460,782) |
| Construction in Progress | 5,006 | 9,326 |
| | <u>5,006</u> | <u>9,326</u> |
| Property, Plant and Equipment, Net | <u>\$ 237,662</u> | <u>\$ 235,642</u> |

Depreciation expense on depreciable assets was \$29,442,000 and \$28,748,000 for the years ended December 31, 2012 and 2011.

The net book value of assets under capital lease arrangements was approximately \$2,634,000 and \$3,688,000 at December 31, 2012 and 2011, respectively. Depreciation expense related to these assets was approximately \$1,054,000 and \$1,181,000 for the years ended December 31, 2012 and 2011, respectively.

Note 6. Long-Term Obligations

At December 31st, bonds payable consist of the following tax-exempt revenue and refunding bonds issued by the Louisiana Public Facilities Authority on behalf of Touro (in thousands):

| | 2012 | 2011 |
|---|------------------|------------------|
| Series 1993, Issued September 1993, due in Sinking Fund Installments through 2023, Annual Interest Rates Ranging from 5.3% to 6.125%. | \$ 29,945 | \$ 30,845 |
| Series 1999, Issued May 1999, due in Sinking Fund Installments through 2029, Annual Interest Rates Ranging from 4.15% to 5.625%. | 45,295 | 46,300 |
| Less: Current Maturities | (1,985) | (1,815) |
| Less: Unamortized Original Issue Discount | (647) | (693) |
| Non-Current Portion of Bonds Payable | <u>\$ 72,608</u> | <u>\$ 74,637</u> |

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 6. Long-Term Obligations (Continued)

The Series 1993 bonds were issued in order to advance refund and redeem previously issued bonds, and to finance capital expenditures of Touro.

The Series 1999 bonds were issued in order to provide funds to finance the cost of the construction, furnishing, and equipping of a 120-bed nursing home and a 60-bed assisted living facility at Woldenberg; the addition of a private-room floor at Touro; and for the funding of routine capital improvements and equipment.

In July 2005, Touro distributed, to bondholders, notices of intent to engage in a Tender Offer and Redemption of \$35,245,000 of Series 1993 bonds, which was the long-term portion of the \$44,785,000 Series 1993 bonds outstanding. As interest rates declined significantly since the issuance of the bonds, this transaction was structured to reduce the borrowing cost of the existing fixed rate of approximately 6.1%. On August 15, 2005, there was a call for full redemption of the bonds (at 100%) remaining outstanding that were not tendered to Touro by August 1 (at 101%). This call for redemption resulted in \$1,190,000 of the bonds being redeemed with the balance of \$34,055,000 being tendered. The tendered bonds were concurrently placed with Merrill Lynch in exchange for an interest rate swap agreement, maturing January 1, 2015 (see Note 4 for further details on the swap).

On September 28, 2011, Touro engaged in a tender offer of \$56,040,000 of Series 1999 bonds which resulted in \$3,385,000 of the bonds being tendered (at 100%). As discussed in Note 4, \$20,200,000 of the remaining Series 1999 bonds were placed with Merrill Lynch in exchange for various interest rate and basis swap agreements, maturing January 1, 2015. On November 5, 2011, Touro called and repurchased \$6,355,000 of these outstanding Series 1999 bonds.

Terms of the interest rate and basis swap agreements obligate Touro to put aside collateral in favor of Merrill Lynch based on a predetermined formula. As of December 31, 2012 and 2011, the collateral account totaled approximately \$543,000 and \$4,331,000, respectively, and such amounts are included in assets limited as to use-restricted by bond indenture on the consolidated balance sheets.

At December 31, 2012, scheduled repayments of principal and sinking fund installments to retire the bonds are as follows (in thousands):

| | | |
|--------------|-----------|----------------------|
| 2013 | \$ | 1,985 |
| 2014 | | 2,110 |
| 2015 | | 2,240 |
| 2016 | | 2,375 |
| 2017 | | 2,520 |
| Thereafter | | <u>64,010</u> |
| Total | \$ | <u>75,240</u> |

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 6. Long-Term Obligations (Continued)

The Series 1993 and 1999 bonds are general obligations of Touro, and future revenues are pledged to repayment of the bonds. Additionally, as mentioned above, under the terms of the indenture agreement, Touro is required to maintain certain deposits with a trustee. The related debt agreements also place limits on the incurrence of additional borrowings and require that Touro satisfy certain measures of financial performance as long as the bonds are outstanding. In 2012, Touro met all measures of financial performance as defined in the loan agreements.

Rent expense for the System, which relates primarily to operating leases for medical and office equipment, was approximately \$5,372,000 and \$5,837,000 in 2012 and 2011, respectively. The future minimum rentals under these leases for the next five years range from approximately \$2,820,000 to \$4,560,000 per year.

Gross rental income earned in the System's operation of medical office buildings in 2012 and 2011, was approximately \$5,627,000 and \$5,300,000, respectively. The future minimum rental payments to be received by the System on noncancelable operating lease agreements for the next five years range from approximately \$240,000 to \$4,465,000 per year.

Note 7. Employee Retirement Plans

Defined Contribution Plans

Children's sponsors a Section 403(b) defined contribution employee benefit plan, which covers substantially all employees who meet age and length of service requirements. The plan allows for participating employees to make contributions ranging up to 7% of their before-tax annual compensation and provides for retirement and death benefits. Children's makes matching contributions equal to 50 cents per dollar for the participating employee's annual contribution up to 7% of the before-tax employee contribution. In addition, Children's makes a core contribution equal to 5% of the participant's annual compensation. Employees of CHMPC participate in the plan and are eligible to receive a core contribution of 1.5% made by Children's. The match for the CHMPC participating employees equals 50 cents per dollar of employee's annual contributions up to 7% of the before tax employee contribution.

In addition, Children's may elect to make an additional 3% discretionary contribution. No such discretionary contribution was made in 2012. Contributions by Children's to this plan during the years ended December 31, 2012 and 2011, were approximately \$6,408,000 and \$8,484,000, respectively. To comply with tax law changes, effective January 1, 2002, an employee becomes 100% vested in matching contributions after three full years of continuous service. Non-matching contributions and matching contributions made prior to January 1, 2002, will continue to vest after five full years of service.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 7. Employee Retirement Plans (Continued)

Defined Contribution Plans (Continued)

Touro and Woldenberg each sponsor a Section 403(b) defined contribution employee benefit plan. Employees who are at least 21 years of age and have completed 1,000 hours of service during a 12-month period are eligible to participate.

Employees of Touro who participate may make tax-deferred contributions of up to 4% of eligible earnings, as defined. Touro will make qualified matching contributions of 50% of employee contributions up to 4% of the employees eligible earnings. An employee of Touro wishing to contribute more may do so up to applicable Internal Revenue Service (IRS) limitations; however, Touro does not match any portion of these additional contributions. Participants fully vest in Touro's matched contributions after one year of service. During December 31, 2012 and 2011, matching contributions approximated \$639,000 and \$610,000, respectively.

Employees of Woldenberg who participate may make tax-deferred contributions up to the applicable IRS limitations. Woldenberg does not match any portion of their participants contributions; therefore, there was no expense recorded for either 2012 or 2011.

CCPI sponsors a Section 401(k) defined contribution employee benefit plan. Employees who have completed thirty days of service are eligible to join the plan. Employees of CCPI may contribute to the plan through salary deferrals up to applicable IRS limitations. During 2011, CCPI made matching contributions of 50% of salary deferral contributions up to a total match of \$1,500. Beginning in 2012, CCPI is making qualified matching contributions of 100% of salary deferral contributions up to 3% of pay, plus 50% of salary deferral contributions in excess of 3% of pay up to 5% of pay. CCPI recognized expense of approximately \$430,000 in 2012 and \$89,000 in 2011.

Defined Benefit Pension Plan

Touro sponsors a defined benefit pension plan that covers substantially all full-time employees. The plan is noncontributory and provides benefits that are based on the participants' years of service and level of compensation. Each participant is entitled to an account balance that grows each year with pay, transition, employer match, and interest credits. Touro's funding policy is based on the minimum contributions required under the Employee Retirement Income Security Act of 1974 as determined by its consulting actuaries. Touro contributed approximately \$1,000,000 and \$2,370,000, to the plan in 2012 and 2011, respectively.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 7. Employee Retirement Plans (Continued)

Defined Benefit Pension Plan (Continued)

The following table sets forth the plan's components of net periodic pension cost, change in projected benefit obligation, change in plan assets, funded status, and pension expense recognized by Touro as of and for the years ended December 31, 2012 and 2011, using the projected unit credit method with salary progression (in thousands):

| | 2012 | 2011 |
|--|--------------------|--------------------|
| Change in Benefit Obligation | | |
| Benefit Obligation at Beginning of Year | \$ 39,152 | \$ 32,605 |
| Service Cost | 2,877 | 2,297 |
| Interest Cost | 1,623 | 1,707 |
| Actuarial Loss | 465 | 4,377 |
| Benefits Paid | (2,600) | (1,835) |
| Benefit Obligation at End of Year | <u>41,517</u> | <u>39,151</u> |
| Change in Plan Assets | | |
| Fair Value of Plan Assets at Beginning of Year | 27,705 | 26,838 |
| Actual Return on Plan Assets | 2,752 | 331 |
| Benefits Paid | (2,600) | (1,835) |
| Employer Contributions | 1,000 | 2,370 |
| Fair Value of Plan Assets at End of Year | <u>28,857</u> | <u>27,704</u> |
| Funded Status (Underfunded) | <u>\$ (12,660)</u> | <u>\$ (11,447)</u> |
| Net Periodic Pension Cost | | |
| Service Cost | \$ 2,877 | \$ 2,297 |
| Interest Cost | 1,623 | 1,707 |
| Actuarial Gain on Plan Assets | (2,752) | (331) |
| Net Amortization | 1,649 | (1,189) |
| Net Periodic Cost | <u>\$ 3,397</u> | <u>\$ 2,484</u> |

Included in net assets at December 31st, are the following amounts that have not yet been recognized in net periodic postretirement benefit cost (in thousands):

| | 2012 | 2011 |
|-----------------------------------|------------------|------------------|
| Unrecognized Net Actuarial Loss | \$ 12,794 | \$ 14,130 |
| Unrecognized Prior Service Cost | (371) | (523) |
| Total Accrued Benefit Cost | <u>\$ 12,423</u> | <u>\$ 13,607</u> |

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 7. Employee Retirement Plans (Continued)

Defined Benefit Pension Plan (Continued)

Amounts included in net assets at December 31, 2012, that are expected to be amortized into net periodic postretirement cost during 2012 are provided below (in thousands):

| | 2012 |
|---------------------------------|-----------------|
| Unrecognized Net Actuarial Loss | \$ 1,335 |
| Unrecognized Prior Service Cost | (151) |
| Total | \$ 1,184 |

Weighted-average assumptions used to determine projected benefit obligations at December 31^{s,t} were as follows:

| | 2012 | 2011 |
|-----------------------------------|--------------|-------|
| Discount Rate, Obligation | 3.90% | 4.30% |
| Discount Rate, Periodic Cost | 4.30% | 5.40% |
| Expected Return on Plan Assets | 7.00% | 7.00% |
| Rate of Compensation Increase | 3.00% | 3.00% |
| Cash Balance Interest Credit Rate | 4.00% | 4.00% |

The defined benefit pension plan asset allocation as of the measurement date (January 1st) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

| | 2012 | 2011 | Target Allocation |
|---------------------------|------------|------|-------------------|
| Equity Securities | 45% | 41% | 50% - 60% |
| Debt Securities | 52% | 51% | 35% - 50% |
| Cash and Cash Equivalents | 3% | 8% | 0% - 5% |

The plan invests in a diversified mix of traditional asset classes, including equities, government and corporate fixed income debt securities, and cash and cash equivalents. The plan's overall allocation is based on mean variance optimization modeling using certain assumptions regarding expected return, risk, and correlations among various asset classes.

Asset allocation analysis considers various potential outcomes and probabilities of returns given current capital markets assumptions. In general, equity securities (both value and growth and active and passive) are utilized to provide expected returns above those of fixed income securities. Fixed income securities are utilized to provide a more stable and less volatile series of returns.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 7. Employee Retirement Plans (Continued)

Defined Benefit Pension Plan (Continued)

The fixed income portfolio contains only securities considered investment grade by maintaining a rating of at least BAA/BBB by Moody's or Standard and Poor's rating agencies.

Professional money managers are delegated the day-to-day responsibility of managing individual portfolios within the context of certain diversification guidelines and to certain performance benchmark standards.

The plan's investment consultant provides quarterly performance reports to evaluate the achievement of overall return expectations of total investments as well as each manager's contribution, both on the basis of absolute and relative performance standards.

The plan's overall asset allocation is reviewed periodically to conform to current market conditions and expectations with regard to overall capital markets assumptions. Historical return patterns and correlations, expected return risk premium, and other multifactor considerations are utilized in the development of overall capital markets assumptions for the purpose of the plan's asset allocation determinations.

Touro expects to make contributions of approximately \$1,870,000 to the defined benefit pension plan in 2013.

For December 31, 2012 and 2011, Touro's plan had accumulated benefit obligations of approximately \$39,248,000 and \$36,280,000, respectively.

Future benefit payments expected to be paid in each of the next five fiscal years and in the aggregate for the following five years as of December 31, 2012, are as follows:

| | |
|-------------|--------------|
| 2013 | \$ 1,110,000 |
| 2014 | 1,130,000 |
| 2015 | 1,180,000 |
| 2016 | 1,300,000 |
| 2017 | 1,360,000 |
| 2018 - 2022 | 8,450,000 |

Supplemental Executive Retirement Plan

Touro has a supplemental executive retirement plan with a former Chief Executive Officer (CEO) in which an annual payment is made over ten years and investment return is credited to the base amount due each year. In addition, Touro has a deferred compensation plan with this former CEO under an employment contract. Amounts payable under these plans totaled approximately \$1,643,000 and \$2,269,000, at December 31, 2012 and 2011, respectively. An additional deferred compensation trust exists, which has been recorded with an offsetting asset and liability in the amount of approximately \$1,664,000 and \$1,164,000, as of December 31, 2012 and 2011, respectively.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 7. Employee Retirement Plans (Continued)

Executive Benefit Plan

Children's sponsors an Executive Benefit Plan benefiting members of senior management. This plan includes a flexible benefit allowance account and an executive employment retention plan. These plans define specific vesting dates and provide the executive with tax deferral opportunities. Total expenses related to the Executive Benefit Plan during the years ended December 31, 2012 and 2011, were approximately \$1,218,000 and \$839,000, respectively. In addition, in 2002, Children's established a 457(b) investment account that can be utilized by senior management. As of December 31, 2012 and 2011, the Hospital's total liability for these plans is \$2,459,000 and \$1,849,000, respectively, and is included in accrued compensation on the consolidated balance sheet. Related assets of \$2,459,000 and \$1,849,000, at December 31, 2012 and 2011, respectively, are recorded to fully settle these plan liabilities.

Note 8. Insurance Programs

Medical Professional Liability

The state of Louisiana enacted legislation that created a statutory limit of \$500,000 for each medical professional liability claim and established the Louisiana Patient Compensation Fund (State Insurance Fund) to provide professional liability insurance to participating health care providers.

The System participates in the State Insurance Fund, which provides up to \$400,000 coverage for settlement amounts in excess of \$100,000 per claim excluding litigation fees and expenses. The System is self-insured with respect to the first \$100,000.

Workers' Compensation

Children's is self-insured for workers' compensation claims up to \$600,000 in effect for fiscal periods beginning January 1, 2012. The loss limit for workers' compensation claims was \$300,000 for fiscal periods starting January 1, 2000 through January 1, 2002, \$350,000 for fiscal periods starting January 1, 2003 through January 1, 2004, and \$500,000 for fiscal periods beginning January 1, 2005 through January 1, 2012. In addition, Children's maintains excess workers' compensation coverage on an occurrence basis up to a specific limit of \$25,000,000 through an insurance carrier.

Touro is self-insured for workers' compensation claims up to \$750,000 in effect for periods beginning February 1, 2009 through December 31, 2012. The self-insured retention or loss limit for workers' compensation claims was \$250,000 for fiscal periods starting January 1, 2002 through December 31, 2002 and \$500,000 for periods starting January 1, 2003 through January 31, 2009. Insurance coverage exceeding these amounts is provided by a commercial carrier for claims up to a specific limit of \$25,000,000 per occurrence. Touro accrues for self-insured claims, claims administration costs, and legal fees based on an actuarial study. The estimated liability for workers' compensation claims in the consolidated balance sheet, which was discounted at 6% was approximately \$1,918,000 and \$2,009,000 at December 31, 2012, and 2011, respectively.

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Notes to Consolidated Financial Statements

Note 8. Insurance Programs (Continued)

Health Insurance

Touro offers subsidized health insurance to its employees through an employer-sponsored health plan. The self-insured plan obligates Touro to pay the first \$250,000 per claim. Insurance coverage exceeding these amounts is provided by a commercial carrier for claims up to \$1,000,000 per occurrence. The health insurance reserves were approximately \$2,258,000 and \$1,754,000 at December 31, 2012 and 2011, respectively. The estimated reserve for employee health care claims is based on actual claims history and includes estimates for administrative costs.

In General

Children's has purchased additional umbrella coverage on a claims-made basis of \$10,000,000 from an insurance carrier through July 31, 2010. Effective August 1, 2010, there is a claims-made policy for the System with a \$20,000,000 annual aggregate limit from an insurance carrier. Hospital management believes all asserted claims are covered and will be settled within the limits of the Hospital's coverage. The recorded liability, based upon an actuarial study, totaled \$3,342,000 and \$3,817,000, discounted at 6%, at December 31, 2012 and 2011, respectively, for known claims and possible losses attributable to any workers' compensation, general, or professional liability incidents that may have occurred but that have not been identified under Children's incident reporting system.

Touro has excess insurance coverage with an annual aggregate limit of \$30,000,000 that covers any settlement amounts that are in excess of \$1,000,000 through July 31, 2010 and a System claims-made policy with a \$20,000,000 annual aggregate limit from an insurance carrier effective August 1, 2010. Touro's management believes that all asserted claims are covered and will be settled within the limits of the Touro's coverage. Touro accrues for self-insured claims, claims administration costs, and legal fees based on an actuarial study and an additional internal assessment. The estimated liability for professional liability claims in the consolidated balance sheets, which was discounted at 6%, was approximately \$7,272,000 and \$6,517,000, at December 31, 2012 and 2011, respectively.

The System has reflected its estimate of the ultimate liability for known and incurred but not reported claims in the accompanying consolidated financial statements.

Note 9. Concentrations of Credit Risk

Patient accounts receivable are stated at estimated net realizable value. The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 9. Concentrations of Credit Risk (Continued)

The mix of receivables from patients and third-party payors at December 31st, was as follows:

| | 2012 | | 2011 | |
|-----------------------|------------|----------|------------|----------|
| Medicare | 8 | % | 8 | % |
| Medicaid | 33 | | 33 | |
| Managed Care | 50 | | 50 | |
| Patients | 8 | | 8 | |
| Workers' Compensation | 1 | | 1 | |
| Total | 100 | % | 100 | % |

Receivables from government-related programs (i.e., Medicare and Medicaid) represent the only concentrated group of credit risk for the System, and management does not believe that there are any credit risks associated with these government programs. Commercial and managed care receivables consist of receivables from various payors involved in diverse activities and subject to differing economic conditions and do not represent any concentrated credit risks to the System.

The System maintains allowances for uncollectible accounts for estimated losses resulting from a payor's inability to make payments on accounts. The System uses a balance sheet approach to value the allowance account based on historical write-offs and the aging of the accounts. Accounts are written off when collection efforts have been exhausted. Management continually monitors and adjusts its allowances associated with its receivables.

The System periodically maintains cash in bank accounts in excess of insured limits. The System has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31st, are available for the following purposes (in thousands):

| | 2012 | | 2011 |
|-------------------------------------|-----------------|-----------|--------------|
| Specific Purpose Funds | | | |
| Research, Education and Other | \$ 5,892 | \$ | 4,930 |
| Patient Care (Including Elder Care) | 1,319 | | 960 |
| Lectures | 348 | | 296 |
| Plant Funds | | | |
| Miscellaneous Renovation Projects | 621 | | 685 |
| Total | \$ 8,180 | \$ | 6,871 |

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Notes to Consolidated Financial Statements

Note 11. Permanently Restricted Net Assets (Endowment Funds)

The State of Louisiana enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective August 15, 2010, the provisions of which apply to endowment funds existing on or established after that date. The Board has determined that the majority of the System's permanently restricted net assets meet the definition of endowment funds under UPMIFA.

The System holds donor-restricted endowment funds established primarily to fund specified activities for and within the System and the medical community as a whole. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has interpreted the State of Louisiana's UPMIFA as requiring the preservation of the fair value at the original gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the System classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed in UPMIFA.

In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purpose of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the System, and (7) the System's investment policies.

Endowment Investment and Spending Policies - The System has adopted investment and spending policies for endowment assets to achieve a disciplined, consistent management philosophy that accommodates reasonable and probable events. Preservation of capital and return on investment are of primary importance. The primary investment objective is to preserve financial assets generated through donor gifts, so that the proceeds may be distributed for the purposes intended by the donors and to the benefit of the System, at a level of risk deemed acceptable by the LCMC Board of Trustees. To satisfy its long-term rate-of-return objectives, the System relies on a strategy outlined by its investment managers and includes purchases of bonds, stocks, and cash and cash equivalents. The System will consider adjusting the amounts of funds that each manager has to manage on an ongoing basis.

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Notes to Consolidated Financial Statements

Note 11. Permanently Restricted Net Assets (Endowment Funds) (Continued)

The System's Endowment Net Asset Composition by fund type as of December 31, 2012, is as follows (in thousands):

| | Temporarily Permanently | | | Total |
|----------------------------------|-------------------------|---------------|-----------------|-----------------|
| | Unrestricted | Restricted | Restricted | |
| Donor-Restricted Endowment Funds | \$ - | \$ - | \$ 7,651 | \$ 7,651 |
| Undesignated Funds | - | 109 | - | 109 |
| Total | \$ - | \$ 109 | \$ 7,651 | \$ 7,760 |

A summary of the changes in the System's Endowment Net Assets for the year ended December 31, 2012, is as follows (in thousands):

| | Temporarily Permanently | | | Total |
|---|-------------------------|---------------|-----------------|-----------------|
| | Unrestricted | Restricted | Restricted | |
| Net Assets, Beginning of Year | \$ - | \$ - | \$ 7,731 | \$ 7,731 |
| Investment Return | | | | |
| Investment Income | - | 181 | - | 181 |
| Net Appreciation (Realized and Unrealized) | - | 644 | - | 644 |
| Total Investment Return | - | 825 | - | 825 |
| Change in Donor Intent | - | - | (80) | (80) |
| Appropriation of Endowment Net Assets for Expenditure | - | (716) | - | (716) |
| Net Assets, End of Year | \$ - | \$ 109 | \$ 7,651 | \$ 7,760 |

The System's Endowment Net Asset Composition by fund type as of December 31, 2011, is as follows (in thousands):

| | Temporarily Permanently | | | Total |
|----------------------------------|-------------------------|-------------|-----------------|-----------------|
| | Unrestricted | Restricted | Restricted | |
| Donor-Restricted Endowment Funds | \$ - | \$ - | \$ 7,731 | \$ 7,731 |
| Undesignated Funds | - | - | - | - |
| Total | \$ - | \$ - | \$ 7,731 | \$ 7,731 |

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Notes to Consolidated Financial Statements

Note 11. Permanently Restricted Net Assets (Endowment Funds) (Continued)

A summary of the changes in the System's Endowment Net Assets for the year ended December 31, 2011, is as follows (in thousands):

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|--------------|------------------------|------------------------|-----------------|
| Net Assets, Beginning of Year | \$ - | \$ 197 | \$ 7,731 | \$ 7,928 |
| Investment Return: | | | | |
| Investment Income (Loss) | - | 356 | - | 356 |
| Net Appreciation (Realized and Unrealized) | - | (272) | - | (272) |
| Total Investment Return | - | 84 | - | 84 |
| Contributions | - | - | - | - |
| Appropriation of Endowment Net Assets for Expenditure | - | (281) | - | (281) |
| Net Assets, End of Year | \$ - | \$ - | \$ 7,731 | \$ 7,731 |

Note 12. Assets Held in Trust

Children's has been named the income beneficiary of a separate trust. Because the assets of the trust are not controlled by Children's and Children's does not have an irrevocable right to receive the income earned on the trust's assets, they are not included in Children's financial statements. The assets had a market value of approximately \$4,223,000 and \$4,063,000 at December 31, 2012 and 2011, respectively. Distributions of income are made at the discretion of the trustee. In 2012 and 2011, Children's recorded contribution income of approximately \$101,000 and \$133,000, respectively, received from the trust.

Note 13. Functional Expenses

The System provides general health care services, both inpatient and outpatient, to patients in the Gulf South region. For the year ended December 31, 2012 and 2011, expenses related to providing these services are as follows (in thousands):

| | 2012 | 2011 |
|------------------------------------|-------------------|-------------------|
| Health Care Services | \$ 359,146 | \$ 371,130 |
| Fiscal and Administrative Services | 116,542 | 85,562 |
| Total | \$ 475,688 | \$ 456,692 |

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Notes to Consolidated Financial Statements

Note 14. Fair Value of Financial Instruments

The carrying values of the System's financial instruments are primarily at or near fair value. The fair value of the System's long-term debt is estimated using discounted cash flow analysis, based on the System's incremental borrowing rate for similar types of borrowing arrangements. The basis for the fair value of its investments and interest rate and basis swap agreements is discussed further in this footnote.

The System has adopted the provisions of the Fair Value Measurements Topic of the FASB ASC. Under the Fair Value Measurements Topic of the FASB ASC, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Fair Value Measurements Topic of the FASB ASC establishes a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, as of the reporting date.

Level 3 - Valuations based on inputs that are unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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Notes to Consolidated Financial Statements

Note 14. Fair Value of Financial Instruments (Continued)

Assets and liabilities measured at fair value on a recurring basis at December 31, 2012, are summarized below (in thousands):

| Assets | Level 1 | Level 2 | Level 3 | Total Fair Value |
|-------------------------------|-------------------|-------------------|------------------|-----------------------------|
| Cash | \$ 75 | \$ - | \$ - | \$ 75 |
| U.S. Government Securities | 1,592 | 117 | - | 1,709 |
| Marketable Equity Securities | 307,227 | 108,334 | 21,912 | 437,473 |
| Other Fixed Income Securities | 45,835 | 245,618 | 147 | 291,600 |
| Mortgage-Backed Securities | - | 3,019 | - | 3,019 |
| Money Market Funds | 20,715 | 16,051 | - | 36,766 |
| Other | - | 500 | - | 500 |
| Interest Rate and Basis Swaps | - | 229 | - | 229 |
| Total | \$ 375,444 | \$ 373,868 | \$ 22,059 | \$ 771,371 |

| Liabilities | Level 1 | Level 2 | Level 3 | Total Fair Value |
|--------------------|----------------|----------------|----------------|-----------------------------|
| None | \$ - | \$ - | \$ - | \$ - |
| Total | \$ - | \$ - | \$ - | \$ - |

The changes in investments measured at fair value for which the System has used Level 3 inputs to determine fair value for 2012, are as follows (in thousands):

| | Level 3 Beginning Balance January 1, 2012 | Realized and Unrealized Gains (Losses) | Purchases, Sales and Settlements | Net Transfers In and/or (Out) of Level 3 | Level 3 Ending Balance December 31, 2012 |
|-------------------------------|--|---|---|---|---|
| Marketable Equity Securities | \$ 19,902 | \$ 1,745 | \$ (3,573) | \$ 3,838 | \$ 21,912 |
| Other Fixed Income Securities | 3,716 | 3 | 2 | (3,574) | 147 |
| Total | \$ 23,618 | \$ 1,748 | \$ (3,571) | \$ 264 | \$ 22,059 |

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Notes to Consolidated Financial Statements

Note 14. Fair Value of Financial Instruments (Continued)

Assets and liabilities measured at fair value on a recurring basis at December 31, 2011, are summarized below (in thousands):

| Assets | Level 1 | Level 2 | Level 3 | Total Fair Value |
|-------------------------------|-------------------|-------------------|------------------|-----------------------------|
| Cash | \$ 5,112 | \$ - | \$ - | \$ 5,112 |
| U.S. Government Securities | 1,734 | 152 | - | 1,886 |
| Marketable Equity Securities | 233,532 | 124,817 | 19,902 | 378,251 |
| Other Fixed Income Securities | 53,976 | 180,208 | 3,716 | 237,900 |
| Mortgage-Backed Securities | - | 5,455 | - | 5,455 |
| Money Market Funds | 24,668 | 22,673 | - | 47,341 |
| Other | - | 46,963 | - | 46,963 |
| Total | \$ 319,022 | \$ 380,268 | \$ 23,618 | \$ 722,908 |

| Liabilities | Level 1 | Level 2 | Level 3 | Total Fair Value |
|----------------------------------|----------------|-----------------|----------------|-----------------------------|
| Interest Rate and Basis Swaps | \$ - | \$ 3,077 | \$ - | \$ 3,077 |
| Total | \$ - | \$ 3,077 | \$ - | \$ 3,077 |

The changes in investments measured at fair value for which the System has used Level 3 inputs to determine fair value for 2011, are as follows (in thousands):

| | Level 3 Beginning Balance January 1, 2011 | Realized and Unrealized Gains (Losses) | Purchases, Sales and Settlements | Net Transfers In and/or (Out) of Level 3 | Level 3 Ending Balance December 31, 2011 |
|-------------------------------|--|---|---|---|---|
| Marketable Equity Securities | \$ 22,015 | \$ (4,313) | \$ - | \$ 2,200 | \$ 19,902 |
| Other Fixed Income Securities | 887 | 3,611 | (7,669) | 6,887 | 3,716 |
| Alternative Investments | 2,330 | - | (2,330) | - | - |
| Total | \$ 25,232 | \$ (702) | \$ (9,999) | \$ 9,087 | \$ 23,618 |

The System's measurements of fair value are made on a recurring basis and their valuation techniques for assets and liabilities recorded at fair value are as follows:

Investments - The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the investment.

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Notes to Consolidated Financial Statements

Note 14. Fair Value of Financial Instruments (Continued)

Interest Rate and Basis Swap Agreements - The fair values of these agreements represent the estimated amount the System would pay to terminate these agreements at the reporting date, taking into account current interest rates and credit worthiness of the counterparty and the System.

Note 15. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors (in thousands):

| | 2012 | 2011 |
|---|-----------------|-----------------|
| Purpose Restrictions Accomplished | | |
| Capital Additions, Research and Education | \$ 4,967 | \$ 4,909 |
| Elder Care | 25 | 203 |
| Other | 176 | 156 |
| Funding of Nursing Educators | 142 | 70 |
| Rehabilitation | 24 | 66 |
| Pastoral Care | 10 | 40 |
| Charity Care | 13 | 21 |
| Surgery | 10 | 18 |
| OBGYN | 25 | - |
| Cardiology | 3 | 2 |
| Total Restrictions Released | \$ 5,395 | \$ 5,485 |

Net assets released from restrictions are included as other operating revenue or other non-operating income, depending upon the nature of the restriction, within unrestricted revenue on the consolidated statements of operations.

Note 16. Woldenberg Village, Inc.

In 1999, Touro became the sole member of Woldenberg, a Louisiana nonprofit corporation, which owned and operated a 120-bed nursing home. On the same day, Woldenberg purchased from the Jewish Federation of Greater New Orleans (Federation), the Woldenberg Villas, a 60-unit independent living facility, at a cost of approximately \$2 million. In turn, the Federation donated two parcels of land adjacent to the nursing home and villas, with a fair value of \$374,000.

As a condition of becoming the sole member of Woldenberg Village, Inc., and receiving the donation of land from the Federation, Touro agreed, among other things, that it would cause Woldenberg to construct a new nursing home on the donated land, so as to replace the existing nursing home.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 16. Woldenberg Village, Inc.(Continued)

Approximately \$27 million of the 1999 bond proceeds, as described in Note 6, were used to finance a portion of the costs of constructing, furnishing, and equipping the new nursing home and assisted living complex. This construction was completed in 2001.

The transfer of the net assets of Woldenberg to Touro was based in part on Touro's pledge to continue the mission of providing nursing home services to the greater New Orleans Jewish community.

The Federation retains certain options with respect to the Woldenberg development in the event Touro should choose at a later date to cease providing such services or, should there be a change in control at Touro due to merger, consolidation or similar event. In the event that Touro were to cease providing such services or accept a change in their control, Touro would be obligated to pay the Federation approximately \$4 million.

During the years ended December 31, 2012 and 2011, Touro recorded impairment charges totaling approximately \$42,000 and \$44,000, respectively, related to Woldenberg. An impairment assessment was performed, and the fair value of the entity was estimated using the present value of future cash flows. These charges relate to the write-down of long-lived assets as future cash flows which are not projected to recover the outstanding book investment cost of one of three business units of Woldenberg. These charges, combined with the impairment charges recognized in previous years, represent a complete write-down of the undepreciated assets of the Willowood business unit (a skilled nursing facility).

Note 17. Commitments and Contingencies

The System has certain pending and threatened litigation and claims incurred in the ordinary course of business; however, management believes that the probable resolution of such contingencies will not exceed the System's recorded reserves or insurance coverage, and will not materially affect the consolidated financial position, results of operations, changes in net assets, or cash flows of the System.

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 System 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.

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Notes to Consolidated Financial Statements

Note 17. Commitments and Contingencies (Continued)

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

The Hospital will deduct from revenue amounts assessed under the RAC and MIC audits after the assessment and appeals process is complete until such time that estimates of net amounts due can be reasonably estimated. RAC and MIC assessments against the Hospital are anticipated; however, the outcome of such assessments are unknown and cannot be reasonably estimated. Management has determined RAC and MIC assessments to be insignificant to date.

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 System 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.

Settlement of Certain Claims by the Government Related to Dr. Palazzo

In April of 2008, Touro signed an agreement with the United States Department of Justice acting on behalf of the Office of Inspector General (OIG) of the Health and Human Services (HHS) agreeing to settle certain false claims related to charges submitted to the government by Dr. Carmen Palazzo.

The terms of the settlement included a payment to the government of \$1,750,000 in addition to reopening several prior year cost reports to ensure that all unallowed costs have been removed. At the same time, Touro also entered into a five-year Corporate Integrity Agreement (CIA) with the HHS OIG. This agreement obligates Touro to strengthen the current compliance program, and implement certain management practices and initiatives to ensure greater oversight of Touro's operations.

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Notes to Consolidated Financial Statements

Note 17. Commitments and Contingencies (Continued)

Settlement of Certain Claims by the Government Related to Dr. Palazzo (Continued)

Additional terms of this agreement include engaging an independent third party to act as an Independent Review Organization, enhancing the contract management policies and procedures, and expanding employee education. Touro has also implemented further internal controls with respect to Medicare and Medicaid billing, reporting, and claims submission processes.

A breach of the CIA could subject Touro to substantial monetary penalties and exclusion from participation in the Medicare and Medicaid programs. Management believes that Touro is in compliance with the terms and provisions of the CIA.

At this time, management believes that the costs related to the settlement and reopening of prior years' cost reports are adequately provided for by reserves established in prior years and the ultimate resolution of these issues will not have a material effect on the System's financial condition, results of operations, or cash flows.

Electronic Health Records (EHR) Incentive Payments

The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that adopt and meaningfully use certified EHR technology. These incentive payments are determined based on a formula, including inputs such as charity charges and total discharges. The revenue associated with EHR incentive payments is recognized by the System when management can provide reasonable assurance that the System will be able to demonstrate compliance with the meaningful use objectives for that reporting period and that the incentive payments will be received by the System. Because these incentive payments are based on management's best estimate, the amounts recognized are subject to change. Any changes resulting from a change in estimate would be recognized within operations in the period in which they occur. In addition, these payments and the related attestation of compliance with meaningful use objectives are subject to audit by the federal government or its designee.

For the year ended December 31, 2012, the System recognized approximately \$2,319,000 and \$701,000 of revenue related to Medicare and Medicaid incentive payments for EHR, respectively. For the year ended December 31, 2011, the System recognized \$6,348,000 of revenue related to Medicaid incentive payments for EHR. These amounts were recognized in full at the date of attestation and are included within other operating revenues on the consolidated statements of operations.

Note 18. Community Support

The System supports and participates in numerous activities and programs that benefit the community. These activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 18. Community Support (Continued)

Children's:

CHAP is designed to assist families with income too high to qualify for Medicaid, but whose lack of resources limit their access to quality health care. Through CHAP, Children's provides health care services without charge to patients whose family income is between 200% (Medicaid Limit) and 350% of the Federal Poverty Income Guidelines. In addition to CHAP, CHMPC increases the accessibility of health care to the indigent and underinsured through its Kids First pediatric primary care physician practices.

Children's continues to focus significant efforts on supporting the advancement of medical knowledge through research. Children's Hospital's Research Institute for Children, opened since 1997, has completed its sixteenth year of operation in 2012.

Additionally, Children's supports the following programs: Mobile Dental Program, Children At Risk Evaluation ("CARE") Center, Inpatient Behavioral Health Program, Limited Intervention Program, the Parenting Center, Ventilator Assisted Care Program, Safe Kids Coalition, Greater New Orleans Immunization Network, Ambulatory Clinical and Nutritional Support Services, and the Miracle League.

The revenues and expenses associated with these programs for the year ended December 31, 2012, are detailed as follows (in thousands):

| | 2012 | | | | | | |
|-------------------------------|-----------------------|------------|------------------|----------------|----------------------|-------------|-------------|
| | Research Institute | CHAP | Mobile Dental | CARE Center | Behavioral Health | Other | Total |
| Patient Revenues | \$ - | \$ 18,273 | \$ 2,092 | \$ 948 | \$ 28,883 | \$ 13,815 | \$ 64,011 |
| Revenue Deductions | - | (18,273) | (1,825) | (703) | (22,307) | (10,449) | (53,557) |
| Other Revenues | 1,488 | - | - | 285 | - | 1,275 | 3,048 |
| Total Revenues | 1,488 | - | 267 | 530 | 6,576 | 4,641 | 13,503 |
| Total Expenses | 7,617 | 5,557 | 1,570 | 1,240 | 6,864 | 17,329 | 40,177 |
| Community Support, Net | \$ (6,128) | \$ (5,557) | \$ (1,303) | \$ (710) | \$ (288) | \$ (12,688) | \$ (26,674) |

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 18. Community Support (Continued)

Children's (Continued):

The revenues and expenses associated with these programs for the year ended December 31, 2011, are detailed as follows (in thousands):

| | 2011 | | | | | | |
|-------------------------------|-----------------------|-------------------|------------------|-----------------|----------------------|-------------------|--------------------|
| | Research Institute | CHAP | Mobile Dental | CARE Center | Behavioral Health | Other | Total |
| Patient Revenues | \$ - | \$ 14,341 | \$ 1,909 | \$ 951 | \$ 26,750 | \$ 13,078 | \$ 57,029 |
| Revenue Deductions | - | (14,341) | (1,350) | (712) | (19,726) | (9,553) | (45,682) |
| Other Revenues | 1,328 | | 64 | 85 | - | 1,530 | 3,007 |
| Total Revenues | 1,328 | - | 623 | 324 | 7,024 | 5,055 | 14,354 |
| Total Expenses | 7,567 | 4,241 | 1,517 | 1,211 | 7,672 | 7,822 | 30,030 |
| Community Support, Net | \$ (6,239) | \$ (4,241) | \$ (894) | \$ (887) | \$ (648) | \$ (2,767) | \$ (15,676) |

In 2012 and 2011, expenses of the community support programs include direct expenses and an allocation of indirect expenses as follows (in thousands):

| | 2012 | 2011 |
|-----------------------|------------------|------------------|
| Direct Expenses | \$ 28,011 | \$ 19,201 |
| Indirect Expenses | 12,165 | 10,829 |
| Total Expenses | \$ 40,177 | \$ 30,030 |

Indirect expenses represent estimates of patient care cost and allocated overhead using Medicare cost reporting methodologies.

These net revenues and expenses are included within the community support line item on the consolidated statements of operations.

In addition to the above community support activities, Children's provides further benefits to Medicaid patients in the form of uncompensated patient care costs. Children's also emphasizes the importance of higher education and funds the teaching of students and health professionals through a comprehensive graduate medical education program. See Note 1 for further information on charity care costs.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 18. Community Support (Continued)

The System:

Touro and Children's formerly collaborated with other healthcare providers (the Hospitals) to ensure the availability of, and to more cost effectively provide, quality healthcare services to low income and needy residents in the community. In order to best address the needs in the community, the collaborative Hospitals became members of four non-profit organizations, Louisiana Clinical Services, Inc. (LCS), Southern Louisiana Clinical Services, Inc. (SLCS), Eastern Louisiana Clinical Services, Inc. (ELCS), and Natchitoches Clinical Services, Inc. (NCS), (collectively, the Non-Profits). The Hospitals contributed funds to the Non-Profits, which were then used to support the provisions of the hospital and clinical physician services, physician in-training services, physician assistant/nurse practitioner services, specialty physician services and other healthcare services. The System officially withdrew from these collaborative agreements July 27, 2012.

Effective November 1, 2011, the System entered into a contract with Louisiana Health Sciences Center (LSUHSC) to cover costs of providing physician services to low income and needy patients at the LSU Interim Hospital in New Orleans (LSU-IH). This contract terminated June 30, 2012.

Effective July 1, 2012, the System entered into multiple contracts with LSUHSC, Tulane University School of Medicine, and Van Meter and Associates to cover costs of providing physician services to low income and needy patients at LSU-IH.

For the years ended December 31, 2012 and 2011, the System contributed approximately \$18,868,000 and \$1,710,000, respectively, to provide healthcare services to low income and needy residents in the community. These expenses are included within the community support line item on the consolidated statements of operations.

Note 19. Accounting for Uncertainty in Taxes

The System follows the provisions of the *Accounting for Uncertainty in Income Taxes* Topic of the FASB ASC. The System recognizes a threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. The interpretation also provides guidance on recognition, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The System's tax filings are subject to audit by various taxing authorities. The System's open audit periods are 2009 through 2012. There are currently no returns under examination. Management evaluated the System's tax positions and considered that the System had taken no uncertain tax positions that require adjustments to the financial statements to comply with the provisions of this guidance.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 20. Upper Payment Limit Program

Children's, Touro and other health care providers have collaborated with the State and units of local government in Louisiana, to more fully fund the Medicaid program and ensure the availability of quality healthcare services for the low income and needy residents in the community population. The provision for this care directly to low income and needy patients will result in the alleviation of the expense of public funds the governmental entities previously expended on such care, thereby allowing the governmental entities to increase support for the state Medicaid program up to federal Medicaid Upper Payment Limits (UPL). Each State's UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Federal matching funds are not available for Medicaid payments that exceed UPLs. As of December 31, 2012 and 2011, the System has received UPL payments of approximately \$66,126,000 and \$8,662,000, respectively, which are recognized in net patient service revenue on the consolidated statements of operations.

Note 21. Subsequent Events

Memorandum of Understanding

During 2012, the Louisiana Department of Health and Hospitals (DHH) and Louisiana State University (LSU) began a process of restructuring the operation of state run medical facilities in Louisiana. As part of this restructuring, DHH and LSU began seeking sustainable partnerships with other healthcare providers to optimize the medical training resources available in the state and to ensure that sufficient numbers of qualified healthcare professionals exist to address the current and future healthcare needs of Louisiana. This healthcare reform effort has refocused on ways to remodel the delivery of care through partnerships and cooperative efforts between the public and private sectors.

In December 2012, the System was named in a Memorandum of Understanding (Memorandum) with five other entities with respect to a transaction whereby the System would become the sole member of University Medical Center Management Corporation, a Louisiana nonprofit corporation. This transaction would be evidenced by a Cooperative Endeavor Agreement (CEA) for a private/public collaboration whereby UMCMC would assume the responsibility for the management and operation of the Interim Louisiana Hospital, currently owned and operated by LSU, and, upon its completion, the new University Medical Center that is currently under construction in New Orleans. If agreements are reached by the parties named in the Memorandum and the CEA, and those agreements become effective, then it is anticipated that the System would make advance lease payments to the State of Louisiana; however, the payment amount is not known as of the date of this report.

Property Lease/Purchase

In February 2013, the System executed a lease/purchase agreement with the State of Louisiana for property. For the lease to become effective, the System made a payment of \$4,000,000 and is committed to funding an escrow account in the amount of \$25,000,000 to fund the full purchase. The System may terminate the lease up to June 20, 2013, with five days notice provided.

LOUISIANA CHILDREN'S MEDICAL CENTER

Notes to Consolidated Financial Statements

Note 21. Subsequent Events (Continued)

Property Lease/Purchase (Continued)

Management has evaluated subsequent events through the date that the financial statements were available to be issued, March 25, 2013, and determined that there were no other events occurred that required disclosure, in addition to the items mentioned above. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

SUPPLEMENTARY INFORMATION



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Independent Auditor's Report on Supplementary Information

To the Governing Board of Trustees
Louisiana Children's Medical Center

We have audited the consolidated financial statements of Louisiana Children's Medical Center (LCMC) (the System) as of and for the years ended December 31, 2012 and 2011, and have issued our report thereon which contains an unmodified opinion on those consolidated financial statements. See page 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental balance sheets, statements of operations, changes in net assets and cash flows as of and for the years ended December 31, 2012 and 2011 are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of LCMC's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A Professional Accounting Corporation

March 25, 2013

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CHILDREN'S HOSPITAL
Balance Sheets
As of December 31, 2012 and 2011 (in Thousands)

| | 2012 | 2011 |
|---|-------------------|-------------------|
| Assets | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 9,069 | \$ 7,428 |
| Assets Limited as to Use | - | - |
| Patient Accounts Receivable, Net of Allowance for Doubtful Accounts of \$7,671 and \$4,411 in 2012 and 2011, Respectively | 35,709 | 28,599 |
| Other Receivables | 34,054 | 7,915 |
| Inventories | 6,932 | 6,407 |
| Prepaid Expenses and Other Assets | 3,149 | 2,779 |
| Estimated Third Party Settlements | - | - |
| Total Current Assets | 88,913 | 53,128 |
| Assets Limited as to Use | | |
| Designated for Capital Projects and Specific Programs | 699,418 | 658,300 |
| Restricted by Bond Indenture, Debt Service Reserve | - | - |
| Donor-Restricted Long-Term Investments | 2,973 | 2,692 |
| Restricted Other | - | - |
| Less: Amount Required for Current Obligations | - | - |
| | 702,391 | 660,992 |
| Property, Plant and Equipment, Net | 100,630 | 104,438 |
| Other Assets | - | - |
| Total Assets | \$ 891,934 | \$ 818,558 |

See independent auditor's report on supplementary information.

CHILDREN'S HOSPITAL
Balance Sheets (Continued)
As of December 31, 2012 and 2011 (in Thousands)

| | 2012 | 2011 |
|--|-------------------|-------------------|
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Trade Accounts Payable | \$ 13,564 | \$ 11,377 |
| Accrued Salaries and Wages | 11,335 | 11,020 |
| Current Maturities of Bonds Payable | - | - |
| Capital Lease Obligations | - | - |
| Current Portion of Estimated Employee Health and Workers' Compensation Claims | 1,660 | 1,502 |
| Current Portion of Estimated Professional Liabilities Claims | 855 | 957 |
| Estimated Third Party Payor Settlements, Net | 13,287 | 9,190 |
| Other | 2,428 | 2,255 |
| Total Current Liabilities | 43,129 | 36,301 |
| Bonds Payable, Net of Current Portion | - | - |
| Estimated Workers' Compensation Claims, Net of Current Portion | 651 | 495 |
| Estimated Professional Liability Claims, Net of Current Portion | 1,427 | 2,017 |
| Employee Benefits | 4,473 | 3,289 |
| Total Liabilities | 49,680 | 42,102 |
| Minority Interest | - | - |
| Net Assets | | |
| Unrestricted | 839,281 | 773,764 |
| Temporarily Restricted | 2,787 | 2,506 |
| Permanently Restricted | 186 | 186 |
| Total Net Assets | 842,254 | 776,456 |
| Total Liabilities and Net Assets | \$ 891,934 | \$ 818,558 |

See independent auditor's report on supplementary information.

CHILDREN'S HOSPITAL
Statements of Operations
For the Years Ended December 31, 2012 and 2011 (in Thousands)

| | 2012 | 2011 |
|--|------------------|-------------------|
| Unrestricted Revenues, Gains and Other Support | | |
| Net Patient Service Revenues | \$ 213,934 | \$ 206,606 |
| Provision for Doubtful Accounts | 6,415 | 4,313 |
| Net Patient Service Revenues less Provision for Doubtful Accounts | 207,519 | 202,293 |
| Other Operating Revenues | 44,255 | 20,565 |
| Total Operating Revenues | 251,774 | 222,858 |
| Operating Expenses | | |
| Employee Compensation and Benefits | 115,159 | 113,480 |
| Purchased Services | 21,264 | 19,843 |
| Professional Fees | 21,033 | 26,009 |
| Supplies and Other Expenses | 49,185 | 45,947 |
| Depreciation and Amortization | 11,485 | 10,976 |
| Impairment Losses | - | - |
| Interest | - | - |
| Total Operating Expenses | 218,126 | 216,255 |
| Income from Operations | 33,648 | 6,603 |
| Investment Income | 74,543 | 2,783 |
| Other Nonoperating (Loss) Income | (16,000) | 902 |
| Community Support, Net | (26,674) | (15,677) |
| Increase (Decrease) in Unrestricted Net Assets | 65,517 | (5,389) |
| Noncontrolling Interests in Income of Consolidating Subsidiaries | - | - |
| Increase (Decrease) in Unrestricted Net Assets Before Other Changes | 65,517 | (5,389) |
| Adjustment to Pension Liability | - | - |
| Increase (Decrease) in Unrestricted Net Assets | \$ 65,517 | \$ (5,389) |

See independent auditor's report on supplementary information.

CHILDREN'S HOSPITAL
Statements of Changes in Net Assets
For the Years Ended December 31, 2012 and 2011 (in Thousands)

| | 2012 | 2011 |
|--|--------------------------|--------------------------|
| Unrestricted Net Assets | | |
| Increase (Decrease) in Unrestricted Net Assets | \$ 65,517 | \$ (5,389) |
| Temporarily Restricted Net Assets | | |
| Contributions | 4,986 | 4,715 |
| Investment Income | - | - |
| Net Assets Released from Restrictions | <u>(4,705)</u> | <u>(4,702)</u> |
| Increase in Temporarily Restricted Net Assets | 281 | 13 |
| Change in Permanently Restricted Net Assets | <u>-</u> | <u>-</u> |
| Increase (Decrease) in Net Assets | 65,798 | (5,376) |
| Net Assets, Beginning of Year | <u>776,456</u> | <u>781,832</u> |
| Net Assets, End of Year | <u><u>\$ 842,254</u></u> | <u><u>\$ 776,456</u></u> |

See independent auditor's report on supplementary information.

CHILDREN'S HOSPITAL
Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011 (in Thousands)

| | 2012 | 2011 |
|---|-----------------|-----------------|
| Cash Flows from Operating Activities | | |
| Increase (Decrease) in Net Assets | \$ 65,798 | \$ (5,376) |
| Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities | | |
| Adjustment to Pension Liability | - | - |
| Noncontrolling Interest in Income of Consolidated Subsidiaries | - | - |
| Depreciation and Amortization | 13,130 | 12,714 |
| Net Loss on Disposal/Sale of Assets | 42 | 113 |
| Impairment Losses | - | - |
| Provision for Doubtful Accounts | 6,415 | 4,313 |
| Change in Operating Assets and Liabilities | | |
| Increase in Patient Accounts Receivable | (13,525) | (9,435) |
| Increase in Other Receivables | (26,139) | (2,046) |
| Increase in Inventory | (525) | (450) |
| (increase) Decrease in Other Current Assets | (370) | 488 |
| Increase in Investments Limited as to Use | (41,399) | (4,227) |
| Increase in Trade Accounts Payable | 2,187 | 1,092 |
| Increase in Accrued Salaries and Wages | 315 | 1,396 |
| Increase in Third-Party Payor Settlements | 4,097 | 10,683 |
| Increase in Other Liabilities | 979 | 925 |
| Net Cash Provided by Operating Activities | 11,005 | 10,190 |
| Cash Flows from Investing Activities | | |
| Capital Expenditures | (9,364) | (10,963) |
| Proceeds from Sale of Assets | - | - |
| Net Cash Used in Investing Activities | (9,364) | (10,963) |
| Cash Flows from Financing Activities | | |
| Payments on Capital Lease Obligation | - | - |
| Repayments of Bonds Payable | - | - |
| Distributions Paid to Noncontrolling Interests | - | - |
| Net Cash Used in Financing Activities | - | - |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,641 | (773) |
| Cash and Cash Equivalents, Beginning of Year | 7,428 | 8,201 |
| Cash and Cash Equivalents, End of Year | \$ 9,069 | \$ 7,428 |
| Supplemental Disclosures of Cash Flow Information | | |
| Cash Paid for Interest | \$ - | \$ - |
| Property, Plant and Equipment Purchases in Accounts Payable | \$ 583 | \$ - |

See independent auditor's report on supplementary information.

TOURO INFIRMARY AND SUBSIDIARIES
Consolidated Balance Sheets
As of December 31, 2012 and 2011 (in Thousands)

| | 2012 | 2011 |
|---|-------------------|-------------------|
| Assets | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 38,032 | \$ 2,400 |
| Assets Limited as to Use | 2,219 | 2,356 |
| Patient Accounts Receivable, Net of Allowance for Doubtful Accounts of \$9,567 and \$9,364 in 2012 and 2011, Respectively | 30,769 | 24,683 |
| Other Receivables | 2,951 | 2,477 |
| Inventories | 5,323 | 4,220 |
| Prepaid Expenses and Other Assets | 2,150 | 2,216 |
| | <hr/> | <hr/> |
| Total Current Assets | 81,444 | 38,352 |
| Assets Limited as to Use | | |
| Designated for Capital Projects and Specific Programs | 47,518 | 37,866 |
| Restricted by Bond Indenture, Debt Service Reserve | 10,113 | 14,042 |
| Donor-Restricted Long-Term Investments | 10,493 | 9,408 |
| Restricted Other | 627 | 623 |
| Less: Amount Required for Current Obligations | (2,219) | (2,356) |
| | <hr/> | <hr/> |
| | 66,532 | 59,583 |
| Property, Plant and Equipment, Net | 137,032 | 131,204 |
| Other Assets | 3,511 | 3,071 |
| | <hr/> | <hr/> |
| Total Assets | \$ 288,519 | \$ 232,210 |

See independent auditor's report on supplementary information.

TOURO INFIRMARY AND SUBSIDIARIES
Consolidated Balance Sheets (Continued)
As of December 31, 2012 and 2011 (in Thousands)

| | 2012 | 2011 |
|--|-------------------|-------------------|
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Trade Accounts Payable | \$ 14,214 | \$ 15,030 |
| Accrued Salaries and Wages | 9,457 | 8,718 |
| Current Maturities of Bonds Payable | 1,985 | 1,815 |
| Capital Lease Obligations | - | 1,138 |
| Current Portion of Estimated Employee Health and Workers' Compensation Claims | 2,948 | 2,601 |
| Current Portion of Estimated Professional Liabilities Claims | 2,870 | 2,113 |
| Estimated Third Party Payor Settlements, Net | 4,298 | 2,803 |
| Other | 34,358 | 10,861 |
| Total Current Liabilities | 70,130 | 45,079 |
| Bonds Payable, Net of Current Portion | 72,608 | 74,637 |
| Estimated Workers' Compensation Claims, Net of Current Portion | 1,229 | 1,162 |
| Estimated Professional Liability Claims, Net of Current Portion | 4,401 | 4,405 |
| Employee Benefits | 15,924 | 14,640 |
| Total Liabilities | 164,292 | 139,923 |
| Noncontrolling Interest | 761 | 623 |
| Net Assets | | |
| Unrestricted | 110,422 | 79,568 |
| Temporarily Restricted | 5,393 | 4,365 |
| Permanently Restricted | 7,651 | 7,731 |
| Total Net Assets | 123,466 | 91,664 |
| Total Liabilities and Net Assets | \$ 288,519 | \$ 232,210 |

See independent auditor's report on supplementary information.

TOURO INFIRMARY AND SUBSIDIARIES
Consolidated Statements of Operations
For the Years Ended December 31, 2012 and 2011 (in Thousands)

| | 2012 | 2011 |
|--|------------------|-------------------|
| Unrestricted Revenues, Gains and Other Support | | |
| Net Patient Service Revenues | \$ 302,114 | \$ 247,255 |
| Provision for Doubtful Accounts | 9,707 | 10,159 |
| Net Patient Service Revenues less Provision for Doubtful Accounts | 292,407 | 237,096 |
| Other Operating Revenues | 13,682 | 11,248 |
| Net Assets Released from Restrictions, Operating | 105 | 330 |
| Total Operating Revenues | 306,194 | 248,674 |
| Operating Expenses | | |
| Employee Compensation and Benefits | 132,219 | 120,488 |
| Purchased Services | 92,925 | 64,812 |
| Professional Fees | - | - |
| Supplies and Other Expenses | 47,695 | 42,818 |
| Depreciation and Amortization | 16,379 | 16,166 |
| Impairment Losses | 42 | 44 |
| Interest | 2,237 | 3,920 |
| Total Operating Expenses | 291,497 | 248,248 |
| Income from Operations | 14,697 | 426 |
| Investment Income | 7,958 | 2,813 |
| Other Nonoperating Income (Loss) | 16,125 | (812) |
| Community Support, Net | (9,434) | (855) |
| Net Assets Released from Restrictions, Nonoperating | 585 | 453 |
| Increase in Unrestricted Net Assets | 29,931 | 2,025 |
| Noncontrolling Interests in (Loss) Income of Consolidating Subsidiaries | (261) | 21 |
| Increase in Unrestricted Net Assets Before Other Changes | 29,670 | 2,046 |
| Adjustment to Pension Liability | 1,184 | (5,621) |
| Increase (Decrease) in Unrestricted Net Assets | \$ 30,854 | \$ (3,575) |

See independent auditor's report on supplementary information.

TOURO INFIRMARY AND SUBSIDIARIES
Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2012 and 2011 (in Thousands)

| | 2012 | 2011 |
|---|---------------------------------|--------------------------------|
| Unrestricted Net Assets | | |
| Increase (Decrease) in Unrestricted Net Assets | \$ 30,854 | \$ (3,575) |
| Temporarily Restricted Net Assets | | |
| Contributions | 519 | 343 |
| Investment Income | 1,199 | 62 |
| Net Assets Released from Restrictions | <u>(690)</u> | <u>(783)</u> |
| Increase (Decrease) in Temporarily Restricted Net Assets | 1,028 | (378) |
| Change in Permanently Restricted Net Assets | <u>(80)</u> | <u>-</u> |
| Increase (Decrease) in Net Assets | 31,802 | (3,953) |
| Net Assets, Beginning of Year | <u>91,664</u> | <u>95,617</u> |
| Net Assets, End of Year | <u><u>\$ 123,466</u></u> | <u><u>\$ 91,664</u></u> |

See independent auditor's report on supplementary information.

TOURO INFIRMARY AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011 (in Thousands)

| | 2012 | 2011 |
|---|------------------|-----------------|
| Cash Flows from Operating Activities | | |
| Increase (Decrease) in Net Assets | \$ 31,802 | \$ (3,953) |
| Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities | | |
| Adjustment to Pension Liability | (1,184) | 5,621 |
| Noncontrolling Interest in (Loss) Income of Consolidated Subsidiaries | 261 | (21) |
| Depreciation and Amortization | 16,379 | 16,166 |
| Net (Gain) Loss on Disposal/Sale of Assets | (1,085) | 181 |
| Impairment Losses | 42 | 44 |
| Provision for Doubtful Accounts | 9,707 | 10,159 |
| Change in Operating Assets and Liabilities | | |
| Increase in Patient Accounts Receivable | (15,793) | (11,660) |
| Increase in Other Receivables | (474) | (146) |
| Increase in Inventory | (1,104) | (55) |
| Decrease in Other Current Assets | 66 | 346 |
| (Increase) Decrease in Investments Limited as to Use | (6,811) | 15,353 |
| (Increase) Decrease in Other Assets | (502) | 234 |
| Increase (Decrease) in Trade Accounts Payable | (817) | (142) |
| Increase (Decrease) in Accrued Salaries and Wages | 739 | (16) |
| Increase (Decrease) in Third-Party Payor Settlements | 1,495 | (253) |
| Increase (Decrease) in Other Liabilities | 27,133 | (2,607) |
| Net Cash Provided by Operating Activities | 59,854 | 29,251 |
| Cash Flows from Investing Activities | | |
| Capital Expenditures | (21,698) | (22,446) |
| Proceeds from Sale of Assets | 642 | 329 |
| Net Cash Used in Investing Activities | (21,056) | (22,117) |
| Cash Flows from Financing Activities | | |
| Payments on Capital Lease Obligation | (1,139) | (1,407) |
| Repayments of Bonds Payable | (1,905) | (10,690) |
| Distributions Paid to Noncontrolling Interests | (122) | (116) |
| Net Cash Used in Financing Activities | (3,166) | (12,213) |
| Net Increase (Decrease) Increase in Cash and Cash Equivalents | 35,632 | (5,079) |
| Cash and Cash Equivalents, Beginning of Year | 2,400 | 7,479 |
| Cash and Cash Equivalents, End of Year | \$ 38,032 | \$ 2,400 |
| Supplemental Disclosures of Cash Flow Information | | |
| Cash Paid for Interest | \$ 4,494 | \$ 5,082 |
| Property, Plant and Equipment Purchases in Accounts Payable | \$ 1,170 | \$ 1,957 |

See independent auditor's report on supplementary information.



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**INDEPENDENT AUDITOR'S 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**

Children's Hospital
New Orleans, Louisiana

We have audited the financial statements of Children's Hospital (the Hospital), as of and for the year ended December 31, 2012, and have issued our report thereon dated March 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

NEW ORLEANS HOUSTON BATON ROUGE COVINGTON

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Compliance and Other Matters

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

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

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

March 25, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Children's Hospital
New Orleans, Louisiana

Compliance

We have audited Children's Hospital's (the Hospital) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended December 31, 2012. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

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

In our opinion, the Hospital complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Internal Control Over Compliance

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

In planning and performing our audit, we considered the Hospital's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Hospital, as of and for the year ended December 31, 2012, and have issued our report thereon dated March 25, 2013, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in our 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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



A Professional Accounting Corporation

March 25, 2013

CHILDREN'S HOSPITAL
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

| Federal Grantor/Pass-Through Grantor Program Title | Federal CFDA Number | Pass-Through Entity No. | Federal Revenue/ Expenditures Recognized |
|---|---------------------------|----------------------------|---|
| Research and Development Cluster | | | |
| Department of Health and Human Services: | | | |
| National Institutes of Health direct programs: | | | |
| Microbial Correlates of Bacterial Vaginosis Treatment Failure and Recurrence in H | 93.855 | | \$ 422,954 |
| Impact of Biological Variation in A1c on Mortality, Cardiovascular Event and Hypoglycemia in the ACCORD Study | 93.837 | | 278,973 |
| ARRA - Atypical G Protein Signaling in Cryptococcus Neoformans | 93.701 | | 111,791 |
| Pass-through programs from: | | | |
| Louisiana State University Agricultural and Mechanical College on behalf of Louisiana State University Health Sciences Center - Minority-Based Community Clinical Oncology Program | 93.395 | 5U10CA063845 | 84,828 |
| University of Pittsburg - Novel Bacterial Pathogens in Pelvic Inflammatory Disease | 93.855 | 5R01A1073940-04 | 6,267 |
| The Board of Supervisors of Louisiana State University and Agricultural and Mechanical College- Louisiana Clinical and Translational Sciences Center | 93.859 | 1U54GM104940 | 38,763 |
| University of Kansas Medical Center - A Randomized Controlled Trial of Amitriptyline for Chronic Oral Food Refusal | 93.865 | QD851460, Q QD851461 | 26,744 |
| Louisiana State University Health Sciences Center- Host Defense Against HIV-Related Pulmonary Infections | 93.838 | 2P01HL076100-07A1 | <u>25,297</u> |
| Total Research and Development Cluster | | | 995,617 |

CHILDREN'S HOSPITAL
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended December 31, 2012

| Federal Grantor/Pass-Through Grantor Program Title | Federal CFDA Number | Pass-Through Entity No. | Federal Revenue/ Expenditures Recognized |
|---|---------------------------|----------------------------|---|
| Department of Health and Human Services | | | |
| Health Resources and Services Administration direct programs: | | | |
| Ryan White Title IV Program | 93.153 | | 1,953,382 |
| Pass-through programs from: | | | |
| City of New Orleans: | | | |
| Ryan White Medical Case Management | 93.914 | K12-466 | 168,357 |
| Ryan White Mental Health Therapy | 93.914 | K12-466 | 61,658 |
| Ryan White Medical Transportation | 93.914 | K12-466 | 25,380 |
| Ryan White Non Medical Case Management | 93.914 | K12-466 | 66,204 |
| State of Louisiana: | | | |
| HHS Emergency Preparedness | 93.889 | N/A | 45,370 |
| Community Based Family Resources Support Grant | 93.590 | 705945 | <u>10,385</u> |
| Total Department of Health and Human Services | | | <u>2,330,736</u> |
| U.S. Department of Education | | | |
| Passed through from Louisiana Department of Education: | | | |
| Children's Hospital, Ventilator Assisted Care Project | 84.027A | 714496 | 157,126 |
| U.S. Department of Justice | | | |
| Passed through from Louisiana Commission on Law Enforcement: | | | |
| New Orleans Children's Advocacy Center | 16.575 | C11-9-007 | 56,182 |
| U.S. Department of Homeland Security: | | | |
| Federal Emergency Management Assistance | 97.036 | | <u>854,992</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 4,394,653</u> |

CHILDREN'S HOSPITAL

Notes to Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2012

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Children's Hospital and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, Children's Hospital provided federal awards to subrecipients as follows:

| Program Title | Federal CFDA Number | Amount Provided to Subrecipients |
|----------------------------------|--------------------------------|---|
| Ryan White Title IV Program | 93.153 | \$ 1,091,534 |
| Research and Development Cluster | Various | \$ 467,848 |

CHILDREN'S HOSPITAL

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2012**

Part I - Summary of Auditor's Results

Financial Statement Section

Type of Auditor's Report Issued: Unqualified

Internal Control over Financial Reporting:

Material Weakness(es) Identified? No

Significant Deficiency(ies) Identified not Considered
to be Material Weakness? No

Noncompliance Material to Financial Statements Noted? No

Federal Awards Section

Internal Control over Major Programs:

Material weakness(es) identified? No

Significant Deficiency(ies) Identified not Considered
to be Material Weakness? No

Type of Auditor's Report Issued on Compliance for Major Programs: Unqualified

Any Audit Findings Disclosed that are Required to be Reported in Accordance
with Circular A-133 (section .510(a))? No

Identification of Major Programs:

| <u>Title</u> | <u>CFDA Number</u> |
|-----------------------------|--------------------|
| Ryan White Title IV Program | 93.153 |

Dollar Threshold used to Determine Type A Programs: \$300,000

Auditee Qualified as Low-Risk Auditee? Yes

CHILDREN'S HOSPITAL

**Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2012**

Part II - Schedule of Financial Statement Findings Section

No findings were noted.

Part III - Federal Awards Findings and Questioned Costs Section

No findings were noted.

CHILDREN'S HOSPITAL

**Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 2012**

None.



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

To the Governing Board of Trustees
Touro Infirmary and Subsidiaries

We have audited the consolidated financial statements of Touro Infirmary and subsidiaries (Touro) as of and for the year ended December 31, 2012, and have issued our report thereon dated March 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

We noted certain matters that we reported to management of Touro in a separate letter dated March 25, 2013.

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

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

March 25, 2013

TOURO INFIRMARY

Schedule of Findings and Responses For the Year Ended December 31, 2012

Part I - Summary of Auditor's Results

Financial Statement Section

Type of Auditor's Report Issued Unqualified

Internal Control over Financial Reporting:

Material Weakness(es) Identified? No

Significant Deficiency(ies) Identified not Considered
to be Material Weaknesses? No

Noncompliance Material to Financial Statements Noted? No

Federal Awards Section - Not applicable

Part II - Financial Statement Findings Section

No findings were noted.

TOURO INFIRMARY

**Summary Schedule of Prior Year Audit Findings
For the Year Ended December 31, 2012**

None.