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Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 2/3/10

Consolidated Financial Statements and Audit Reports and Schedules Related to Office of Management and Budget Circular A-133

Touro Infirmary and Subsidiaries
Years Ended December 31, 2008 and 2007

Ernst & Young LLP

Ernst & Young

Touro Infirmary and Subsidiaries

Consolidated Financial Statements and Audit Reports and Schedules Related to Office of Management and Budget Circular A-133

Years Ended December 31, 2008 and 2007

Contents

Ernst & Young LLP
3900 One Shell Square
701 Poydras Street
New Orleans, Louisiana 70139
Tel: +1 504 581 4200
Fax: +1 504 596 4233
www.ey.com

Report of Independent Auditors

The Governing Board of Trustees
Touro Infirmary and Subsidiaries

We have audited the accompanying consolidated balance sheets of Touro Infirmary and subsidiaries (Touro) as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Touro's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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. We were not engaged to perform an audit of Touro's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Touro's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Touro Infirmary and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations, changes in their net assets, and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2009, on our consideration of Touro's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Our audits were performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying 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 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Ernst + Young LLP

November 11, 2009,
except for Note 5, as to which the date is
December 23, 2009

Touro Infirmary and Subsidiaries

Consolidated Balance Sheets

	December 31 2008	December 31 2007
Assets		
Current assets:		
Cash and cash equivalents	$ –	$ –
Investments whose use is limited required for current obligations	**2,572,307**	3,542,983
Patient accounts receivable, net of allowance for doubtful accounts of $13,387,000 and $16,008,000 in 2008 and 2007, respectively	**22,693,700**	21,493,475
Other receivables	**1,897,565**	2,331,555
Inventories	**4,264,825**	4,055,076
Prepaid expenses	**3,989,181**	5,197,622
Contributions receivable	**–**	31,001
Total current assets	**35,417,578**	36,651,712
Assets limited as to use—investments:		
Designated for capital projects and specific programs	**29,324,835**	82,249,600
Restricted by bond indenture—debt service reserve	**24,387,970**	14,747,861
Donor-restricted long-term investments	**8,797,511**	21,033,729
Restricted other	**600,000**	1,560,000
Less investments whose use is limited required for current obligations	**(2,572,307)**	(3,542,983)
Total assets limited as to use—investments	**60,538,009**	116,048,207
Investment in affiliates	**75,779**	133,914
Property, plant, and equipment, net	**127,425,794**	125,474,291
Other assets	**3,767,800**	4,396,838
Total assets	**$ 227,224,960**	$ 282,704,962

	December 31	
	2008	**2007**
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	**$ 14,744,437**	$ 19,675,290
Cash overdraft	**3,439,823**	4,328,135
Accrued salaries and wages	**7,064,594**	6,836,213
Current maturities of bonds payable	**2,425,000**	2,290,000
Current portion of capital lease obligations	**1,937,539**	1,548,169
Current portion of estimated employee health and workers' compensation claims	**2,502,961**	1,504,588
Current portion of estimated professional liabilities claims	**1,180,970**	1,123,092
Estimated government healthcare program liabilities, net	**5,687,643**	7,551,558
Other	**10,842,496**	4,809,078
Total current liabilities	**49,825,463**	49,666,123
Bonds payable, net of current portion	**91,168,094**	93,491,000
Capital lease obligations, net of current portion	**4,098,587**	5,654,410
Estimated workers' compensation claims, net of current portion	**1,208,429**	1,214,302
Estimated professional liability claims, net of current portion	**4,550,934**	4,162,371
Employee benefits, net of current portion	**18,034,195**	11,013,450
Total liabilities	**168,885,702**	165,201,656
Minority interest	**1,055,520**	–
Net assets:		
Unrestricted	**47,469,995**	95,879,268
Temporarily restricted	**2,125,627**	13,940,424
Permanently restricted	**7,688,116**	7,683,614
Total net assets	**57,283,738**	117,503,306
Total liabilities and net assets	**$ 227,224,960**	$ 282,704,962

See accompanying notes.

Touro Infirmary and Subsidiaries

Consolidated Statements of Operations

	Year Ended December 31	
	2008	**2007**
Unrestricted revenues, gains, and other support:		
Net patient service revenues	**$ 205,432,059**	$ 200,460,626
Investment (loss) income	**(23,409,845)**	8,815,423
Other operating revenues	**9,222,194**	8,606,075
Net assets released from restrictions—operations	**8,340,119**	496,705
Total operating revenues	**199,584,527**	218,378,829
Operating expenses:		
Salaries and wages	**99,647,190**	102,703,400
Employee benefits	**17,099,017**	14,780,468
Purchased services	**59,006,986**	57,870,743
Supplies	**40,268,650**	40,866,107
Provision for doubtful accounts	**5,465,110**	3,894,944
Depreciation and amortization	**15,647,963**	15,227,581
Impairment losses	**186,561**	10,031,452
Interest	**6,024,945**	5,772,336
Total operating expenses	**243,346,422**	251,147,031
Loss from operations	**(43,761,895)**	(32,768,202)
Nonoperating gains, net	**3,899,711**	14,714,204
Decrease in unrestricted net assets before adjustment to pension liability and transition adjustment	**(39,862,184)**	(18,053,998)
Adjustment to pension liability	**(8,547,089)**	(886,429)
Transition adjustment from adoption of SFAS No. 158	**–**	(1,330,331)
Decrease in unrestricted net assets	**$ (48,409,273)**	$ (20,270,758)

See accompanying notes.

Touro Infirmary and Subsidiaries

Consolidated Statements of Changes in Net Assets

	Year Ended December 31	
	2008	**2007**
Unrestricted net assets—decrease in unrestricted net assets	**$ (48,409,273)**	$ (20,270,758)
Temporarily restricted net assets:		
Contributions	**294,875**	137,687
Investment (loss) income	**(3,557,976)**	1,425,990
Net assets released from restrictions	**(8,551,696)**	(496,705)
(Decrease) increase in temporarily restricted net assets	**(11,814,797)**	1,066,972
Change in permanently restricted net assets	**4,502**	–
Decrease in net assets	**(60,219,568)**	(19,203,786)
Net assets at beginning of year	**117,503,306**	136,707,092
Net assets at end of year	**$ 57,283,738**	$ 117,503,306

See accompanying notes.

Touro Infirmary and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31 2008	2007
Operating activities		
Decrease in net assets	$ **(60,219,568)**	$ (19,203,786)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Adjustment to pension liability	**8,547,089**	886,429
Transition adjustment from adoption of SFAS No. 158	**–**	1,330,331
Net loss in affiliated companies	**77,177**	69,581
Depreciation and amortization	**15,647,963**	15,227,581
Impairment losses	**186,561**	10,031,452
Provision for doubtful accounts	**5,465,110**	3,894,944
Change in operating assets and liabilities:		
Increase in patient accounts receivable	**(6,665,335)**	(445,153)
Decrease (increase) in other receivables	**433,990**	(531,772)
Decrease (increase) in other current assets	**1,029,693**	(642,116)
Decrease in investments limited as to use	**56,480,874**	15,641,251
Decrease (increase) in other assets	**629,030**	(232,811)
Decrease in trade accounts payable	**(4,930,856)**	(2,550,505)
(Decrease) increase in cash overdraft	**(888,312)**	4,328,135
Increase (decrease) in accrued salaries and wages	**228,381**	(21,886)
Decrease in estimated government healthcare program settlements, net	**(1,863,915)**	(6,372,162)
Increase in other liabilities	**5,937,183**	4,803,912
Net cash provided by operating activities	**20,095,065**	26,213,425
Investing activities		
Capital expenditures	**(17,786,023)**	(29,424,296)
Capital contributions to affiliate	**(19,042)**	(70,939)
Net cash used in investing activities	**(17,805,065)**	(29,495,235)
Financing activity		
Repayments of bonds payable	**(2,290,000)**	(2,165,000)
Cash used in financing activity	**(2,290,000)**	(2,165,000)
Net decrease in cash and cash equivalents	**–**	(5,446,810)
Cash and cash equivalents at beginning of year	**–**	5,446,810
Cash and cash equivalents at end of year	$ **–**	$ –
Supplemental disclosures of cash flow information		
Cash paid for interest, net of amounts capitalized	$ **5,671,254**	$ 5,798,294
Property, plant, and equipment purchases in accounts payable	$ **788,148**	$ 785,846
Property, plant, and equipment acquired under capital leases	$ **1,360,033**	$ 4,807,806

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

The consolidated financial statements of Touro Infirmary (a not-for-profit corporation) and subsidiaries (Touro) include the accounts of Touro Infirmary (Hospital); Touro Infirmary Foundation (Foundation); Woldenberg Village, Inc. (Woldenberg); the Hospital's wholly owned for-profit subsidiaries, Metrolab, Inc., and Crescent City Physicians, Inc.; and its 50% interest in Choice Healthcare, Inc., which is accounted for using the equity method of accounting. Touro formed TIJV, LLC (TIJV), a real estate joint venture, in 2007 and this organization had no operations in 2007. During 2008, TIJV completed construction of a $5,000,000 diagnostic imaging center. All significant intercompany transactions have been eliminated in consolidation. Touro is located in New Orleans, Louisiana, and has operations in the surrounding areas.

The Foundation and Woldenberg are nonstock, not-for-profit corporations whose sole member is the Hospital. The Foundation performs the fund-raising function for the Hospital. Woldenberg operates a 120-bed nursing home, a 60-unit assisted living facility, and a 60-unit independent living facility. Metrolab, Inc. operates a commercial clinical laboratory. Crescent City Physicians, Inc. operates physician medical practices. The Hospital owns a majority of the Buckman Medical Office Building and Delachaise Street Garage (Buckman Complex), as well as condominium units and a parking garage in the Touro Medical Office Building that are adjacent to the Hospital. Touro also owns the St. Charles General Hospital and parking garage with a majority ownership of suites in the adjacent medical office building. Choice Healthcare, Inc. operates a physician/hospital organization that is 50% owned by the physicians who are members. Touro and Woldenberg own 64% of the outstanding units of TIJV, with physicians owning the 36% remainder.

Liquidity

Touro has incurred recurring operating losses since 2005 (see Note 16), partially offset by insurance recoveries and federal and state grants. Liquidity has been provided through the use of available assets limited as to use. In 2009 and 2010, Touro expects to realize approximately $25 billion in State of Louisiana funds to support their operations due to the significant increase in charity care, and care to the uninsured and underinsured population in the New Orleans area.

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with a remaining maturity when purchased of three months or less, excluding assets whose use is limited. At December 31, 2008 and 2007, Touro was in a cash overdraft position of $3,439,823 and $4,328,135, respectively. These amounts are included in current liabilities.

Investments and Assets Limited as to Use

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets, based upon 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 in unrestricted net assets unless the income or loss is restricted by donor or law.

Assets limited as to use primarily include assets held by trustees under indenture agreements, investments restricted by donors, and designated assets set aside by the Governing Board (the Board) for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital have been reclassified in the consolidated balance sheets at December 31, 2008 and 2007.

Restricted other investments consists of certificates of deposit held by the Workers' Compensation Fund as collateral against the self-insured portion of claims.

1. Summary of Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of first-in, first-out cost or market at the balance sheet date.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. 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	4–10 years

Impairment of Long-Lived Assets

Touro 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. Touro 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 14 for discussion of impairment losses on Woldenberg Village and Note 4 for discussion of impairment losses on the St. Charles General Hospital building. Because of recurring operating losses at the Hospital, impairment indicators were considered to exist at December 31, 2008. However, based on an analysis of future undiscounted cash flows, no impairment loss was deemed necessary to be recognized at December 31, 2008.

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

The provisions for estimated workers' compensation, professional liability, and employee health claims include estimates for the ultimate costs for both reported claims and claims incurred but not reported. These estimates incorporate Touro's past experience, as well as other considerations, including the nature of claims, industry data, relevant trends, and/or the use of actuarial information.

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. Permanently restricted net assets have been restricted by donors to be maintained by Touro in perpetuity. 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.

Net Patient Service Revenues

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenues 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined or determinable.

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 totaled approximately $2,300,000 at December 31, 2008 and 2007, and accumulated amortization was approximately $884,000 and $825,000 at December 31, 2008 and 2007, respectively.

Advertising Expenses

Touro expenses advertising costs as incurred. Advertising expense was $2,010,000 and $1,950,000 for the years ended December 31, 2008 and 2007, respectively.

1. Summary of Significant Accounting Policies (continued)

Donor-Restricted Gifts

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 gift is received. The 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 a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions.

Community Benefit

In the furtherance of its charitable purpose, the Hospital provides a wide variety of benefits to the community which it serves. Such benefits include social service programs, health screenings, in-home caregiver services, support counseling for patients and families, pastoral care, crisis intervention, the donation of space for use by community groups, health enhancement and wellness programs, classes on specific medical conditions, and telephone information services. The Hospital also provides a broad range of clinical services to economically disadvantaged patients, both inpatient and outpatient, through outpatient clinics. In addition, the Hospital's Governing Board and management work closely with local civic leaders to address the healthcare needs of the community.

The Hospital also provides medical care without charge or at reduced costs to residents of its community through the provision of charity care. During the years ended December 31, 2008 and 2007, charity care charges foregone were approximately $2,714,000 and $2,209,000, respectively. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as revenue. In addition, the Hospital waives collection of charges for patients who have demonstrated economic hardship and inability to pay. Furthermore, the Hospital provides services to public program enrollees (primarily Medicare and Medicaid). Payments for such services often do not cover all costs incurred.

1. Summary of Significant Accounting Policies (continued)

Income Taxes

The Hospital, the Foundation, and Woldenberg are not-for-profit entities under Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxation. Metrolab, Inc. and Crescent City Physicians, Inc. are for-profit entities. The operations of these for-profit subsidiaries have resulted in cumulative net operating losses for federal income tax purposes at December 31, 2008, of approximately $12,000,000. These net operating loss carryforwards expire in varying amounts through 2026. No tax benefits related to these operating losses have been recognized in the accompanying consolidated financial statements.

Derivatives and Financial Instruments

Touro uses interest rate swap and basis swap agreements to manage interest costs and the risk associated with changing interest rates. While Touro'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 provisions of Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and Statement of Position 02-2, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator.*

New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109,* which clarifies the accounting and disclosure for uncertain tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. This interpretation was effective for Touro in 2007. The adoption of this accounting principle did not have a significant effect on the consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS No. 158), which requires the recognition of the funded status of a defined benefit pension plan or postretirement plan in the consolidated balance sheets and to recognize changes in the funded status in the year changes occur through comprehensive income or unrestricted net assets for not-for-profit organizations. In addition, SFAS No. 158 also requires the employer to measure the funded status of the plan as of the date of its year-end financial statements. The recognition of the funded status provision was required to be implemented by Touro in 2007. Touro increased the recorded liability at December 31, 2007, by $1,330,000 with an offsetting adjustment to net assets for the effect of the adoption of SFAS No. 158 on its consolidated financial statements.

Effective January 1, 2008, Touro adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In February 2008, the FASB issued Staff Position (FSP) 157-2, *Effective Date of FASB Statement SFAS No. 157* (FSP 157-2). This FSP delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Touro does not expect the adoption of FSP 157-2 to have a material effect on its consolidated financial statements or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), which permits entities to choose to measure many financial instruments and certain other items at fair value, and establishes presentation and disclosure requirements for similar assets and liabilities measured at fair value. SFAS No. 159 was effective for fiscal years beginning after November 15, 2007. Touro did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008, the effective date of the standard, and has not elected the option for any financial assets or financial liabilities subsequent to the effective date.

1. Summary of Significant Accounting Policies (continued)

In August 2008, the FASB issued FSP No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1). FSP FAS 117-1 modifies net asset classification of donor-restricted endowment funds for not-for-profits in states which have adopted an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (the Act). At December 31, 2008, Louisiana had not adopted the Act.

Reclassification

A liability of approximately $5.7 million for 2007 was reclassified from other current liabilities to employee benefits liability in 2008 to conform with the current year presentation.

2. Net Patient Service Revenues

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

Medicare and Medicaid

The Hospital is reimbursed under the Medicare Prospective Payment System (PPS) for acute care inpatient services provided to Medicare beneficiaries and is paid a predetermined amount for these services based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. In addition, the Hospital is paid prospectively for Medicare inpatient capital costs based on the federal specific rate. The Hospital qualifies as a disproportionate share provider and a teaching hospital under the Medicare regulations. As such, the Hospital 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.

The Hospital is paid a prospective per diem rate for Medicaid inpatients. The per diem rate is based on a peer grouping methodology, which assigns a per diem rate to each hospital in the peer group. 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.

2. Net Patient Service Revenues (continued)

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 the Hospital 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.

Retroactive cost settlements based upon annual cost reports are estimated for those programs subject to retroactive settlement and recorded in the consolidated financial statements. Final determination of retroactive cost settlements to be received under the Medicare and Medicaid regulations is subject to review by program representatives. The difference between a final settlement and an estimated settlement in any year is reported as an adjustment of net patient service revenue in the year the final settlement is made. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2006. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through December 31, 2002.

Net revenues from government healthcare programs included in net patient service revenues approximated $78,101,000 and $71,380,000 in 2008 and 2007, 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 2008 and 2007 approximately $667,000 and $1,414,000, 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, and 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 2008, the Hospital received $1,763,000 from the State of Louisiana through the Stabilization Grant Payment Program and from a Graduate Medical Education Supplement Payment.

2. Net Patient Service Revenues (continued)

During 2007, the Hospital received $3,567,000 of wage index adjustment payments, to provide in part for the significant increases in the wage index in the New Orleans area. This amount was included in net patient service revenue.

During 2007, the Hospital received uncompensated care payments from the Medicaid program of $5,831,000 for specific patients. These payments were included in net patient service revenue.

The Hospital received additional payments for uncompensated care of $3,279,000 in 2008 and $3,250,000 in 2007 due to the significant increase in uncollectible patient accounts in the New Orleans market. These payments were accounted for as a reduction of the provision for doubtful accounts.

Managed Care

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Inpatient and outpatient services rendered to managed care subscribers are reimbursed at prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. Net revenues derived from managed care contracts included in net patient service revenues approximated $96,516,000 and $85,534,000 in 2008 and 2007, respectively.

3. Assets Limited as to Use and Investments

Touro's investments 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, 2008 and 2007, investments consisted of the following:

	2008	**2007**
Pooled asset portfolio:		
Marketable equity securities	**$ 12,716,933**	$ 55,131,603
Corporate bonds	**6,098,590**	11,487,316
Mortgage-backed securities	**5,734,041**	9,275,168
Alternative investments	**3,523,146**	7,729,001
Money market funds	**7,783,301**	2,695,712
Total pooled asset portfolio	**35,856,011**	86,318,800
Separately invested portfolio:		
Marketable equity securities	**642,079**	9,624,067
U.S. treasury notes, bonds, and bills	**1,972,307**	2,942,983
State of Israel bonds	**540,000**	540,000
Mortgage-backed securities	**927,070**	1,749,775
Money market funds, certificates of deposit, and commercial paper	**23,172,849**	18,415,565
Total separately invested portfolio	**27,254,305**	33,272,390
Total	**$ 63,110,316**	$119,591,190

At December 31, 2008, Touro and subsidiaries maintained $600,000 of certificates of deposit held by the Workers' Compensation Fund as collateral against its self-insured portion of workers' compensation claims.

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.

3. Assets Limited as to Use and Investments (continued)

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 Touro does not intend to sell such investments before the expiration of the early redemption periods.

Touro 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.

All investments are held for trading purposes. Consequently, all unrestricted investment income, including both realized and unrealized gains and losses, are included in operating revenues, and investment activities are reported as operating activities in the consolidated statement of cash flows. Investment (loss) income comprises the following:

	2008	2007
Operating:		
Interest and dividend income	$ 2,214,316	$ 5,579,590
Net gains and losses:		
Realized (losses) gains on securities	(6,763,725)	7,386,540
Unrealized losses on securities	(22,418,412)	(4,126,671)
	(26,967,821)	8,839,459
Nonoperating:		
Interest and dividend income	–	1,401,950
	$(26,967,821)	$ 10,241,409

Investment income is reported net of investment fees in the accompanying consolidated financial statements. Investment fees were approximately $291,000 and $485,000 for the years ended December 31, 2008 and 2007, respectively.

3. Assets Limited as to Use and Investments (continued)

Derivative Instruments

On August 29, 2000, the Hospital entered into a ten-year, $50,000,000 notional amount basis swap agreement. Under this arrangement, the Hospital pays a variable rate based on the Bond Market Association (BMA) Index and receives a variable rate calculated as 69.5% of three-month LIBOR. On August 29, 2001, the Hospital entered into a 15-year, $50,000,000 notional amount basis swap agreement. Under this agreement, the Hospital pays a variable rate based on the BMA Index and receives a variable rate calculated at 73.75% of monthly LIBOR. Both of these swap agreements were terminated in 2007.

On July 19, 2004, the Hospital entered into a three-year, $25,000,000 notional amount basis swap agreement. Under this agreement, the Hospital paid a variable rate based on the BMA Index and received a fixed rate of 2.435%. This swap matured on July 19, 2007.

On August 15, 2005, the Hospital entered into a five-year, $3,210,000 notional amount basis swap agreement. Under this agreement, the Hospital pays a variable rate based on the BMA Index and receives a fixed rate of 5.35%. On August 15, 2005, the Hospital entered into a five-year, $30,845,000 notional amount basis swap agreement. Under this agreement, the Hospital pays a variable rate based on the BMA Index and receives a fixed rate of 5.475%.

Investment income in 2008 and 2007 includes net losses of $7,223,000 and $124,000, respectively, related to these agreements. At December 31, 2008 and 2007, these agreements had a negative carrying value (which approximates fair value) of approximately $7,490,000 and $267,000, respectively, and are recorded in other current liabilities.

4. Property, Plant, and Equipment

At December 31, 2008 and 2007, property, plant, and equipment consisted of the following:

	2008	2007
Land and land improvements	**$ 18,117,713**	$ 17,797,022
Buildings	**175,421,206**	157,885,875
Fixed equipment	**71,729,989**	68,272,654
Major moveable equipment	**122,460,857**	122,373,661
	387,729,765	366,329,212
Less *accumulated depreciation and amortization*	**(261,334,017)**	(245,676,666)
Construction in progress	**1,030,046**	4,821,745
Property, plant, and equipment, net	**$ 127,425,794**	$ 125,474,291

Impairment losses are included in accumulated depreciation and amortization.

St. Charles General Hospital Building Impairment Charge

On January 11, 2006, Touro purchased a parcel of property formerly known as St. Charles General Hospital and its attached office buildings, all of which is contained within 1,000 feet of the Touro campus. St. Charles General Hospital has been vacant and not operational since Hurricane Katrina caused cessation of operations in August 2005.

Due to the state of disrepair of the buildings acquired, during 2007, Touro recorded an impairment charge of $7,231,000 against St. Charles General Hospital, which includes the estimated cost of $1,464,000 for demolishing the structure and to return it to its marketable state as undeveloped land.

5. Long-Term Obligations

At December 31, 2008 and 2007, bonds payable consist of the following tax-exempt revenue and refunding bonds issued by the Louisiana Public Facilities Authority on behalf of the Hospital:

	2008	2007
Series 1993, issued September 1993, due serially 2000 – 2004 and in sinking fund installments 2005 – 2023, annual interest rates ranging from 5.3% to 6.125%	$ 36,180,000	$ 38,190,000
Series 1999, issued May 1999, due serially 2001 – 2010 and in sinking fund installments 2011 – 2029, annual interest rates ranging from 4.15% to 5.625%	58,195,000	58,475,000
Less current maturities	(2,425,000)	(2,290,000)
Less unamortized original issue discount	(781,906)	(884,000)
Noncurrent portion of bonds payable	$ 91,168,094	$ 93,491,000

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

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; an addition of a private room floor at the existing campus; 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 then outstanding. As interest rates declined significantly since the issuance of the bonds, this transaction was structured to reduce the borrowing cost from 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 l, 2005 (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 interest rate swap agreements that effectively converted the bonds to variable rate debt (see Note 3 for further details on the swap). Terms of these interest rate swap agreements obligated Touro to put aside collateral in favor of

5. Long-Term Obligations (continued)

Merrill Lynch based on a predetermined formula. As of December 31, 2008 and 2007, the collateral account totaled $14,428,000 and $3,579,000, respectively, and such amounts are included in assets limited as to use – restricted by bond indenture on the consolidated balance sheets.

At December 31, 2008, scheduled repayments of principal and sinking fund installments to retire the bonds are as follows:

Years ending December 31:	
2009	$ 2,425,000
2010	2,350,000
2011	2,715,000
2012	1,905,000
2013	3,045,000
Thereafter	81,935,000
Total	$ 94,375,000

The Series 1993 and 1999 bonds are general obligations of the Hospital, and future revenues are pledged to repayment of the bonds. Additionally, under the terms of the loan agreements, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use in the consolidated financial statements. The related debt agreements also place limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding. In 2008 and 2007, the Hospital did not meet certain measures of financial performance as defined in the loan agreements. The inability to meet these measures of financial performance is not considered to be an Event of Default under the loan agreements that would give the trustee or bondholders the unilateral ability to accelerate the repayment of debt represented by the bonds. The loan agreements provide for management to retain a consultant to make recommendations to improve the financial results so as to raise the covenant measurement to the stipulated level as required per the loan agreements. Touro has engaged a management consultant and is currently implementing recommendations from the management consultant. Touro intends to meet the specified measures of financial performance in future periods. Bank of New York, as Bond Trustee, has notified Touro that the remedial actions taken by Touro, including the engagement of a management consultant, are sufficient to allow the Bond Trustee to not consider the events of noncompliance with the financial measures as an Event of Default, as defined. In addition,

5. Long-Term Obligations (continued)

Touro did not comply with the timely submission of its 2008 audited financial statements to the Bond Trustee; however, the Bond Trustee has not taken action regarding this covenant violation, as provided for in the loan agreement. Therefore, this covenant violation is not considered an Event of Default, as defined.

The Hospital has entered into various capital leases for medical equipment and computer software, with terms ranging from two to five years with renewal options. The maturities of these capital lease obligations as of December 31, 2008, are shown below:

2009	$ 2,457,020
2010	1,882,445
2011	1,746,303
2012	1,486,555
	7,572,323
Less maintenance fees	857,524
Less imputed interest	678,673
Less current portion	1,937,539
	$ 4,098,587

The net book value of assets under capital lease arrangements was $7,420,000 at December 31, 2008.

Rent expense, which relates primarily to operating leases for medical and office equipment, was approximately $2,727,000 and $2,160,000 in 2008 and 2007, respectively. The future minimum rentals under these leases for the next five years range from approximately $1,275,000 to $2,231,000 per year.

Gross rental income earned in Touro's operation of medical office buildings in 2008 and 2007 was approximately $2,348,000 and $2,544,000, respectively. The future minimum rental payments to be received by the Hospital on noncancelable operating lease agreements for the next five years range from approximately $426,000 to $2,550,000 per year.

6. Employee Retirement Plans

Defined Contribution Plan

Certain Touro entities sponsor a Section 403(b) defined contribution employee benefit plan. For those entities, 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. Participants may make matched tax-deferred contributions of up to 1% of eligible earnings, as defined. These contributions are then matched 1% by the employer up to $1,000. Participants may also make unmatched tax-deferred contributions up to applicable Internal Revenue Service limitations. Participants fully vest in the employers' matched contributions after one year of service. During 2008 and 2007, Touro's matching contributions approximated $325,700 and $310,000, respectively.

Defined Benefit Pension Plan

The Hospital's defined benefit pension plan 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. As of January 1, 2002, Touro's traditional defined benefit pension plan was converted from a final average pay plan to a cash balance plan, with opening account balances calculated based on the December 31, 2001, accrued benefit under the final average pay plan provisions. Under the cash balance plan, each participant is entitled to an account balance that grows each year with pay, transition, employer match, and interest credits. The Hospital'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 $2,400,000 to the plan in 2008 and no contribution was made in 2007.

6. Employee Retirement Plans (continued)

The following table sets forth the plan's change in projected benefit obligation, change in plan assets, funded status, and components of net periodic pension cost recognized by the Hospital as of and for the years ended December 31, 2008 and 2007, using the projected unit credit method with salary progression:

	2008	2007
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 27,880,248**	$ 27,146,465
Service cost	**1,471,592**	1,320,527
Interest cost	**1,615,206**	1,483,867
Actuarial loss	**2,076,555**	403,381
Benefits paid	**(1,772,574)**	(2,473,992)
Benefit obligation at end of year	**31,271,027**	27,880,248
Change in plan assets:		
Fair value of plan assets at beginning of year	**22,019,450**	23,282,601
Actual (loss) return on plan assets	**(4,946,586)**	1,210,841
Benefits paid	**(1,772,574)**	(2,473,992)
Employer contributions	**2,400,000**	–
Fair value of plan assets at end of year	**17,700,290**	22,019,450
Funded status (underfunded)	**$ (13,570,737)**	$ (5,860,798)
Net periodic pension cost:		
Service cost	**$ 1,471,592**	$ 1,320,527
Interest cost	**1,615,206**	1,483,867
Actuarial loss (gain) on plan assets	**4,946,586**	(1,210,841)
Net amortization	**(6,470,527)**	(441,784)
Net periodic cost	**$ 1,562,857**	$ 1,151,769

Amounts recognized in the consolidated balance sheet at December 31 are as follows:

	2008	2007
Total liability recognized	**$ (13,570,737)**	$ (5,860,798)

6. Employee Retirement Plans (continued)

Included in net assets at December 31, 2008 and 2007, are the following amounts that have not yet been recognized in net periodic postretirement benefit cost:

	2008	2007
Unrecognized net actuarial loss	**$ 14,699,830**	$ 6,304,218
Unrecognized prior service cost	**(976,979)**	(1,128,449)
	$ 13,722,851	$ 5,175,769

Amounts included in net assets at December 31, 2008, that are expected to be amortized into net periodic postretirement cost during 2009 are provided below:

Unrecognized net actuarial loss	$ 1,314,640
Unrecognized prior service cost	(151,470)
	$ 1,163,170

Weighted-average assumptions used to determine net periodic pension cost and the projected benefit obligation for the years ended December 31, 2008 and 2007, were as follows:

	2008	2007
Discount rate – obligation	**5.75%**	6.00%
Discount rate – periodic cost	**6.00**	5.75
Expected return on plan assets	**8.00**	8.00
Rate of compensation increase	**4.00**	4.00
Cash balance interest credit rate	**5.00**	5.00

6. Employee Retirement Plans (continued)

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

	2008	2007	Target Allocation
Equity securities	**57%**	62%	50%–60%
Debt securities	**34%**	34%	35%–50%
Cash and cash equivalents	**9%**	4%	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. 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.

6. Employee Retirement Plans (continued)

The Hospital expects to make contributions of approximately $2,500,000 to the defined benefit pension plan in 2009.

For 2008 and 2007, the Hospital's plan had accumulated benefit obligations of approximately $29,287,000 and $26,550,000, 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, 2008, are as follows:

Years ending December 31:	
2009	$ 980,000
2010	1,000,000
2011	1,050,000
2012	1,100,000
2013	1,140,000
2014 – 2018	6,550,000

Supplemental Executive Retirement Plan

Touro has a supplemental executive retirement plan with its 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 the former CEO under an employment contract. Amounts payable under these plans totaled $3,617,922 and $3,944,805 at December 31, 2008 and 2007, respectively. An additional deferred compensation trust exists, which has been recorded with an offsetting asset and liability in the amount of $1,368,533 and $2,360,109, which represents the value of the accounts as of December 31, 2008 and 2007, respectively.

7. Insurance Programs

During 1976, 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 healthcare providers. The Hospital participates in the State Insurance Fund, which provides up to $400,000 coverage for settlement amounts in excess of $100,000 per claim. The Hospital is self-insured with respect to the first $100,000. The Hospital has excess insurance coverage with an annual aggregate limit of $30,000,000 that covers any settlement amounts that are in excess of $500,000. The Hospital accrues for self-insured claims, claims administration costs, and legal fees based on an actuarial study. The estimated liability for professional liability claims in the consolidated balance sheets, which was discounted at 4%, was approximately $5,732,000 and $5,285,000 at December 31, 2008 and 2007, respectively.

The Hospital is also self-insured for workers' compensation liability for the first $500,000 per claim. Insurance coverage exceeding these amounts is provided by a commercial carrier for claims up to $1,000,000 per occurrence. The Hospital 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 sheets, which was discounted at 4% was approximately $1,864,000 and $1,890,000 at December 31, 2008 and 2007, respectively.

The Hospital offers subsidized health insurance to its employees through an employer-sponsored health plan. The self-insured plan obligates the Hospital to pay the first $200,000 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 self-insured reserves were approximately $1,847,000 and $821,000 at December 31, 2008 and 2007, respectively. The estimated reserve for employee healthcare claims is based on actual claims history and includes estimates for administrative costs.

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

8. Concentrations of Credit Risk

Patient accounts receivable are stated at estimated net realizable value. Touro grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2008 and 2007, was as follows:

	2008	2007
Medicare	**15%**	18%
Medicaid	**10**	8
Blue Cross	**8**	11
Other third-party payors	**57**	46
Patients	**9**	15
Workers' compensation	**1**	2
	100%	100%

Receivables from government-related programs (i.e., Medicare and Medicaid) represent the only concentrated group of credit risk for Touro, 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 Touro.

Touro maintains allowances for uncollectible accounts for estimated losses resulting from a payor's inability to make payments on accounts. Touro 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.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2008 and 2007, are available for the following purposes:

	2008	2007
Specific purpose funds:		
Patient care (including elder care)	$ 172,936	$ 6,380,336
Education	553,991	3,323,161
Research	915,218	1,272,745
Lectures	188,973	474,069
Library	32,894	119,142
Miscellaneous	235,079	1,502,444
Plant funds:		
Purchase of radiology equipment	–	237,088
Renovation of research building	–	405,382
Miscellaneous renovation projects	26,536	66,684
Capital additions	–	159,373
	$ 2,125,627	$ 13,940,424

10. Permanently Restricted Net Assets (Endowment Funds)

Touro holds donor-restricted and board-designated endowment funds established primarily to fund specified activities for and within Touro and the medical community as a whole. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The intent of Touro is to preserve the historic dollar value of original permanently restricted gifts.

Touro classifies the historic value of donor-restricted gifts to be held in perpetuity. The remaining accumulated earnings of the donor-restricted endowment funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

At December 31, 2008, permanently restricted net assets representing donor-restricted perpetual endowment funds were $7,688,116. There were no temporarily restricted net assets representing net accumulated endowment earnings at December 31, 2008.

10. Permanently Restricted Net Assets (Endowment Funds) (continued)

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor requires to retain as a fund of perpetual duration. During 2008, the donor-restricted endowment incurred an unrealized loss of $2,501,183, which was recognized as investment loss in unrestricted net assets.

Touro 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 Touro, at a level of risk deemed acceptable by the Board.

To satisfy its long-term rate-of-return objectives, Touro relies on a strategy outlined by its investment managers and includes purchases of bonds, stocks, and cash and cash equivalents. Touro will consider adjusting the amounts of funds that each manager has to manage on an ongoing basis.

Touro has adopted spending policies allowing endowment funds to be utilized only in accordance with the purposes established by the donor or Board designation.

Permanently restricted net assets (endowment funds) at December 31, 2008 and 2007, are invested in perpetuity, the income from which is expendable to support the following purposes:

	2008	2007
Nursing education	**$ 1,444,161**	$ 1,444,161
Charitable care	**2,255,501**	2,255,501
General education	**251,366**	251,366
Patient care	**69,721**	69,721
Lectures	**162,994**	162,994
Archives	**104,959**	104,959
Awards	**67,754**	67,754
Elder care	**2,000,000**	2,000,000
Miscellaneous	**1,331,660**	1,327,158
	$ 7,688,116	$ 7,683,614

10. Permanently Restricted Net Assets (Endowment Funds) (continued)

During 2008, Touro had the following endowment-related activities:

	Donor-Restricted Endowment Funds
Investment return:	
Investment loss	$ (880,878)
Net depreciation	(2,501,183)
Total investment return	(3,382,061)
Contributions to perpetual endowment	4,502
Amounts appropriated for expenditure	3,382,061
Total change in endowment funds	$ 4,502

11. Functional Expenses

The Hospital provides general healthcare services to residents within its geographic location. For the years ended December 31, 2008 and 2007, expenses related to providing these services were as follows:

	2008	2007
Professional services	**$ 104,684,746**	$ 101,459,353
Fiscal and administrative services	**53,391,296**	51,035,688
Nursing services	**36,682,007**	41,244,543
General services	**17,588,082**	18,009,346
Provision for doubtful accounts	**5,465,110**	3,894,944
Depreciation and amortization	**15,647,963**	15,227,581
Impairment loss	**186,561**	10,031,452
Interest	**6,024,947**	5,772,336
Other	**3,675,710**	4,471,788
	$ 243,346,422	$ 251,147,031

12. Fair Value of Financial Instruments

Touro determined the fair values of its financial instruments based on the fair value hierarchy established in SFAS No. 157, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard defines fair value, describes three levels of inputs that may be used to measure fair value, and expands disclosures about fair value measurements.

Fair value is defined in SFAS No. 157 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. Fair value is the price to sell an asset or transfer a liability and, therefore, represents an exit price, not an entry price. Fair value is the exit price in the principal market (or, if lacking a principal market, the most advantageous market) in which the reporting entity would transact. Fair value is a market-based measurement, not an entity-specific measurement, and, as such, is determined based on the assumptions that market participants would use in pricing the asset or liability. The exit price objective of a fair value measurement applies regardless of the reporting entity's intent and/or ability to sell the asset or transfer the liability at the measurement date.

SFAS No. 157 requires the use of valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset, also known as current replacement cost. Valuation techniques used to measure fair value are to be consistently applied.

In SFAS No. 157, inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model), and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable:

- Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.

12. Fair Value of Financial Instruments (continued)

- Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Valuation techniques used to measure fair value are intended to maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS No. 157 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation techniques into the following three levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

- Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are to be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters.

Securities classified by Touro as assets limited as to use were reported at fair value utilizing mostly Level 1 and Level 2 inputs. The fair value measurements consider quoted prices in active markets for identical assets. Level 2 inputs such as previous day and subsequent day trade prices were used if a trade for the security was not made on the date of measurement.

12. Fair Value of Financial Instruments (continued)

Assets measured at fair value on a recurring basis at December 31, 2008, are summarized below:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
U.S. treasury notes, bonds and bills	$ 1,972,307	$ –	$ –	$ 1,972,307
Money market funds, certificates of deposit, and commercial paper	30,956,150	–	–	30,956,150
Marketable equity securities	13,359,012	–	–	13,359,012
Corporate bonds	–	6,098,590	–	6,098,590
Mortgage-backed securities	–	6,661,111	–	6,661,111
State of Israel bonds	–	540,000	–	540,000
Derivatives	–	7,490,000	–	7,490,000
	$46,287,469	$20,789,701	$ –	$67,077,170

The following methods and assumptions were used by Touro in estimating the fair value of its financial instruments:

Cash and Cash Equivalents – The carrying amount reported in the consolidated balance sheet for cash and cash equivalents approximates its fair value.

Investments – These assets consist primarily of money market funds, U.S. treasury notes, bonds and bills, mortgage-backed securities, corporate bonds, certificates of deposit, commercial paper, and marketable equity securities. Touro's investments, excluding its alternative investments, are carried at fair value based Level 1 and Level 2 inputs.

Bonds Payable – Fair values of Touro's revenue and refunding bonds are based on currently traded values of similar financial instruments. The fair value of the bonds outstanding was approximately $69,083,000 and $100,109,000 at December 31, 2008 and 2007, respectively.

12. Fair Value of Financial Instruments (continued)

Derivatives – The Hospital uses interest rate swap and basis swap agreements to manage interest costs and the risk associated with changing interest rates. The fair values of these agreements represent the estimated amounts the Hospital would receive or pay to terminate the agreements, taking into consideration current interest rates. At December 31, 2008 and 2007, these agreements had a negative carrying value (which approximates fair value) of approximately $7,490,000 and $267,000, respectively, and are recorded in other current liabilities.

13. 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:

	2008	2007
Purpose restrictions accomplished:		
Rental	$ –	$ –
Miscellaneous	184,463	51,642
Elder care	420,907	127,670
Surgery	69,676	–
OB/GYN	212,320	–
Nursing loan program	7,370	54,746
Lab support	250,877	–
Nursing recruitment and retention	257,192	–
Funding of nursing educators	–	61,978
Rehabilitation	673,502	–
Charity care	818,473	–
Cancer	442,541	–
Cardiology	256,656	200,669
Plant	1,237,970	–
Radiology	1,369,000	–
Transfer of restricted to unrestricted	2,350,749	–
Total restrictions released	$ 8,551,696	$ 496,705

14. Woldenberg Village, Inc.

On May 19, 1999, the Hospital became the sole member of Woldenberg, a Louisiana nonprofit corporation, which owned and operated a 101-bed nursing home. On the same day, Woldenberg purchased from the Jewish Federation of Greater New Orleans (Jewish Federation) the Woldenberg Villas, a 60-unit independent living facility, at a cost of approximately $2,000,000, and the Jewish 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 and receiving the donation of land from the Jewish Federation, the Hospital agreed, among other things, that it would cause Woldenberg to construct a new nursing home on the donated land (to replace the existing nursing home). Approximately $27,000,000 of the 1999 bond proceeds (see Note 5) were used to finance a portion of the costs of constructing, furnishing, and equipping the new nursing home. Construction of the new facility was completed in late 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 Jewish 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. To support the Hospital in this mission, the Jewish Federation has agreed to provide continuing support of approximately $250,000 per year to Woldenberg through 2008.

During the years ended December 31, 2008 and 2007, Touro recorded impairment charges totaling approximately $186,000 and $2,801,000 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 are not projected to recover the outstanding book investment cost of one of three business units of Woldenberg Village. These charges, combined with the $16,162,000 and $1,647,000 impairment recorded in 2005 and 2006, respectively, represent a complete write-down of the undepreciated assets of the WillowWood business unit (a skilled nursing facility).

In 2004, Touro sued several contractors and others due to deficient construction at Woldenberg. In 2007, Touro received $2,975,000 in connection with settlements of these claims, which are included in nonoperating gains, net.

14. Woldenberg Village, Inc. (continued)

Based on future financial trends and the possible impact of negative trends on our future outlook, further impairments of long-lived assets may occur.

15. Commitments and Contingencies

The Hospital 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 Hospital'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 Hospital.

The Office of Inspector General (OIG) conducted a review of the Hospital's past billing practices for certain Medicare inpatient rehabilitation services. During 2006, the OIG concluded that the manner in which the Hospital billed the Medicare program for these services resulted in an overpayment to the Hospital of approximately $3,300,000 and required the Hospital to refund these alleged overpayments to Medicare. The Hospital paid Medicare in 2007. In January 2008 and November 2008, the Hospital received payments of $954,000 and $1,211,000, respectively, which was a refunding of the $3,300,000. This refunding was the result of ongoing case-by-case appeals filed for reconsideration by the Hospital of most of the claims the OIG considered overpaid. The court found no basis for the OIG claims of overpayment on the claims in question and ordered the claims be repaid.

The healthcare industry as a whole is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at the time. Such compliance with laws and regulations in the healthcare industry has come under increased government scrutiny and further amounts may be assessed by federal and state authorities against Touro. As a result, there is a possibility that recorded estimates will change by a material amount in the near term.

15. Commitments and Contingencies (continued)

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 OIG of the Department of 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. 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 Hospital's financial condition, results of operations, or cash flows.

16. Impact of Hurricane

On August 29, 2005, Hurricane Katrina struck metropolitan New Orleans. The Hospital suffered moderate damage from the hurricane; however, the loss of power and utility services forced the Hospital to completely close for approximately six weeks. Touro maintains insurance policies that provide coverage for business interruption and property damage sustained from the hurricane. The insurance policy requires a $6,700,000 deductible for which Touro is responsible.

16. Impact of Hurricane (continued)

During 2006, Touro received payments from its insurers of approximately $33,700,000 for direct additional expenses, repairs, restoration, and business interruption. In addition to insurance proceeds, Touro received approximately $3,800,000 from the Federal Emergency Management Agency (FEMA) in 2006 related to deductibles and other losses not covered by insurance.

In 2007, Touro and its subsidiaries received $1,815,000 in insurance proceeds and $4,760,000 in FEMA payments. In 2008, Touro and its subsidiaries received $1,454,000 in additional insurance proceeds and $647,000 in FEMA payments. Touro has recorded a reserve of $716,000 for estimated FEMA overpayments. Touro is not anticipating any other payments and considers all claims related to Katrina closed.

Overall, Touro has received $61,818,000 in insurance and FEMA proceeds through December 31, 2008, for its various claims related to Katrina damages.

17. Fourth Quarter Adjustments (Unaudited)

Touro prepares unaudited condensed consolidated financial statements in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included in the interim condensed consolidated financial statements.

Touro recorded adjustments in the fourth quarter of 2008 to recognize asset impairments of $186,561 at Woldenberg (see Notes 4 and 14).

18. Subsequent Event

In July 2009, Touro finalized an agreement with Children's Hospital in New Orleans (Children's) that creates a two-hospital system called the Louisiana Children's Medical Center (Parent), with Children's top administrator serving as chief executive officer of the Parent. The Parent's governing board will include members from the existing Children's and Touro boards. Children's also committed to $100 million (subsequently reduced to $88 million due to approximately $25 million in special State of Louisiana payments to the Hospital in 2009 and 2010) in capital investments at Touro over the next five years and operating support (as defined) until the capital commitment is fulfilled.

Audit Reports and Schedules Related to Office of Management and Budget Circular A-133

Ernst & Young LLP
5900 One Shell Square
701 Poydras Street
New Orleans, Louisiana 70139
Tel: +1 504 581 4200
Fax: +1 504 596 4233
www.ey.com

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

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, 2008, and have issued our report thereon dated November 11, 2009, except for Note 5, as to which the date is December 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 consolidated 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 combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Touro's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain

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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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and are described in the accompanying schedule of findings and questioned costs as findings 08-01 and 08-02.

This report is intended solely for the information and use of management, the Governing Board of Trustees, others within the entity, 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.

Ernst + Young LLP

November 11, 2009,
except for Note 5, as to which the date is
December 23, 2009

Ernst & Young

Ernst & Young LLP
3900 One Shell Square
701 Poydras Street
New Orleans, Louisiana 70139
Tel: +1 504 581 4200
Fax: +1 504 596 4233
www.ey.com

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

The Governing Board of Trustees
Touro Infirmary and Subsidiaries

Compliance

We have audited the compliance of Touro Infirmary and subsidiaries (Touro) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2008. Touro's major federal program is 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 its major federal program is the responsibility of Touro's management. Our responsibility is to express an opinion on Touro's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 Touro'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 Touro's compliance with those requirements.

In our opinion, Touro complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings 08-01 and 08-02.

Internal Control Over Compliance

The management of Touro 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 Touro's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Touro's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

Touro's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Touro's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Governing Board of Trustees, others within the entity, 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.

Ernst + Young LLP

November 11, 2009

Touro Infirmary and Subsidiaries

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2008

Federal Grantor	Location	Federal CFDA Number/State Contract Number	Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Homeland Security				
Pass-through of the Governor's Office of Homeland Security and Emergency Preparedness	Touro Infirmary	97.036		$ 630,979
Pass-through of the Governor's Office of Homeland Security and Emergency Preparedness	Woldenberg Village	97.036		15,998
Total U.S. Department of Homeland Security				646,977
U.S. Department of Health and Human Services				
Hospital Preparedness Program	Touro Infirmary	93.889		35,680
Total expenditures of federal awards				$ 682,657

See accompanying notes.

1. Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Touro Infirmary and subsidiaries (Touro) and is presented on the cash basis of accounting. Grant revenues are recorded for financial reporting purposes when Touro has met the qualifications for the respective grants. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the December 31, 2008, consolidated financial statements of Touro.

2. Nature of Activities

Touro receives public assistance grants to supplement the expense of repairing its facilities due to the presidential disaster area declaration of the greater New Orleans area following Hurricane Katrina in 2005. Touro also receives public assistance grants to enhance its preparedness for public health emergencies.

Touro Infirmary and Subsidiaries

Schedule of Findings and Questioned Costs

Year Ended December 31, 2008

Part I—Summary of auditor's results

Financial statements section

Type of auditor's report issued (unqualified, qualified, adverse, or disclaimer):	Unqualified			
Internal control over financial reporting:				
Material weakness(es) identified?		**yes**	X	**no**
Significant deficiency(ies) identified that are not considered to be material weaknesses?		**yes**	X	**none reported**
Noncompliance material to financial statements noted?		**yes**	X	**no**

Federal awards section

Internal control over major programs:				
Material weakness(es) identified?		**yes**	X	**no**
Significant deficiency(ies) identified that are not considered to be material weaknesses?		**yes**	X	**none reported**
Type of auditor's report issued on compliance for major programs (unqualified, qualified, adverse, or disclaimer):	Unqualified			
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	X	**yes**		**no**

Identification of major programs:

CFDA number(s)	**Name of federal program or cluster**
97.036	Department of Homeland Security – Public Assistance Grants

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee? ____ **yes** _X_ **no**

Part II—Financial statement findings section

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in an OMB Circular A-133 audit.

No findings were noted.

Part III—Federal award findings and questioned costs section

This section identifies the audit findings required to be reported by OMB Circular A-133 section .510(a) (for example, material weaknesses, significant deficiencies, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program. Where practical, findings should be organized by federal agency or pass-through entity.

Finding 08-01

Federal program information:	United States Department of Homeland Security Public Assistance Grant (passed through to Touro from the Governor's Office of Homeland Security and Emergency Preparedness CFDA No. 97.036
Criteria or specific requirement (including statutory, regulatory, or other citation):	OMB Circular A-110 requires that for equipment acquired through federal grants, a physical inventory of the equipment shall be taken at least once every two years and reconciled to equipment records.
Condition:	Touro does not have a formal policy in place to perform the required inventory of equipment acquired through federal grants and has not performed an inventory of the equipment once over the last two years.
Questioned costs:	None.

Context:	During our test of controls and compliance procedures, which covered approximately 94% of the federal award expenditures made in 2008, we noted that Touro maintained appropriate records for equipment acquired. In addition, our tests of property and equipment disposals noted no disposal of equipment acquired through federal grants during 2008.
Effect:	Touro is not in compliance with periodic inventory requirements for equipment acquired through federal grant to ensure compliance with OMB Circular A-110 requirements identified above.
Cause:	Touro lacked preventative controls related to equipment inventory performance.
Recommendation:	Touro should review the appropriate OMB Circular A-110 federal requirements related to equipment inventory requirements and should establish procedures and controls to ensure periodic equipment inventory procedures are performed.

Views of responsible officials and planned corrective actions:	Touro will develop a policy for equipment inventory procedures related to equipment acquired through federal grants. Touro will have the internal auditor complete an asset inventory in 2010.
Conclusion:	Based on the above, finding remains as stated.

Finding 08-02

Federal program information:	United States Department of Homeland Security Public Assistance Grant (passed through to Touro from the Governor's Office of Homeland Security and Emergency Preparedness CFDA No. 97.036
Criteria or specific requirement (including statutory, regulatory, or other citation):	Louisiana Revised Statute (R.S.) 24:513 A requires submission of audited financial statements to the Louisiana Legislative Auditor within six months of year-end for entities that receive federal funding that passes through Louisiana state agencies.
Condition:	Touro did not submit the audited financial statements to the Louisiana Legislative Auditor within the required timeframe.
Questioned costs:	None.
Context:	The audit of the Touro 2008 financial statements was not completed until January 2010 due to several accounting and reporting matters, including a merger transaction with Louisiana Children's Medical Center, that were not resolved and finalized until December 2009.

Effect:	Touro is not in compliance with audited financial statement submission guidelines required by the Louisiana Legislative Auditor.
Cause:	Touro had several financial statement reporting issues that were not resolved prior to the Louisiana Legislative Auditor submission deadline.
Recommendation:	Touro should submit audited financial statements timely to the Louisiana Legislative Auditor, when possible, as long as federal assistance received by Touro passes through Louisiana agencies.
Views of responsible officials and planned corrective actions:	Touro will file the December 31, 2009, audited financial statements by June 30, 2010.
Conclusion:	Based on the above, finding remains as stated.