

REPORT ON AUDIT OF FEDERAL AWARDS IN
ACCORDANCE WITH OMB CIRCULAR A-133

Children's Medical Center and Subsidiaries
Year Ended September 30, 2012
With Reports of Independent Auditors

Ernst & Young LLP



Children’s Medical Center and Subsidiaries

Report on Audit of Federal Awards in Accordance with OMB Circular A-133

Year Ended September 30, 2012

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Section I – Financial Information

Report of Independent Auditors

The Board of Trustees
Children's Medical Center and Subsidiaries

We have audited the accompanying consolidated balance sheet of Children's Medical Center and Subsidiaries (the Medical Center) as of September 30, 2012, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Physicians' Organization at Children's Hospital, Inc. (the P.O.) and the Physician Foundations (the Foundations), controlled affiliates, which statements reflect total assets of \$877 million as of September 30, 2012, and total revenues of \$580 million for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the P.O. and the Foundations, is based solely on the report of the other auditors.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the P.O. and the Foundations were not audited in accordance with *Government Auditing Standards*. We were not engaged to perform an audit of the Medical Center's internal control over financial reporting. Our audit 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 the Medical Center'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 audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Children's Medical Center and Subsidiaries at September 30, 2012, and the consolidated results of their operations, changes in their net assets and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

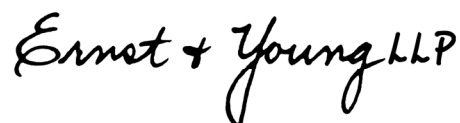
As discussed in Note 1 to the consolidated financial statements, in 2012 the Medical Center changed its reporting entity to include the accounts of the P.O. and the Foundations in its consolidated financial statements.

As discussed in Note 1 to the consolidated financial statements, in 2012 the Medical Center changed its method of reporting bad debt expense as a result of the adoption of Accounting Standards Update (“ASU”) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*.

As discussed in Note 1 to the consolidated financial statements, in 2012 the Medical Center changed its method of accounting for estimated insurance claims receivable and estimated insurance claims liabilities as a result of the adoption of ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*.

In accordance with *Government Auditing Standards*, we have also issued our report, dated January 23, 2013, on our consideration of the Medical Center’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by US 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

January 23, 2013, except for the schedule of expenditures of federal awards for which the date is June 27, 2013

Children's Medical Center and Subsidiaries

Consolidated Balance Sheet

September 30, 2012
(In Thousands)

Assets		Liabilities and net assets	
Current assets:		Current liabilities:	
Cash and cash equivalents	\$ 182,981	Accounts payable and accrued expenses	\$ 141,429
Patient accounts receivable, net of allowance for uncollectible accounts of \$26,716	166,017	Accrued salaries and wages	90,350
Other receivables	30,695	Current portion of estimated third-party liabilities	7,585
Grants receivable	40,992	Current portion of long-term debt	870
Current portion of pledges receivable, net	28,934	Current portion of notes payable	522
Other current assets	25,580	Deferred revenue	32,146
Total current assets	<u>475,199</u>	Total current liabilities	<u>272,902</u>
Investments:		Long-term liabilities:	
Unrestricted as to use	1,488,284	Long-term debt	666,907
Limited by Board designation	1,739,757	Mortgage notes payable	67,640
Restricted by donor-imposed restriction	466,734	Long-term portion of estimated third-party liabilities	24,970
	<u>3,694,775</u>	Net pension liability	74,056
Other assets whose use is limited:		Funds held for others	46,026
By externally administered trusts	47,308	Interest rate swap liability	155,581
For deferred compensation and other benefit obligations	102,309	Deferred compensation and other benefit obligations	108,780
Other	8,266	Other liabilities	94,486
	<u>157,883</u>	Total long-term liabilities	<u>1,238,446</u>
Property, plant, and equipment, net	913,411	Net assets:	
Pledges receivable, net	69,449	Unrestricted	3,252,773
Other assets	65,829	Temporarily restricted	444,405
Total assets	<u>\$ 5,376,546</u>	Permanently restricted	168,020
		Total net assets	<u>3,865,198</u>
		Total liabilities and net assets	<u>\$ 5,376,546</u>

See accompanying notes.

Children's Medical Center and Subsidiaries

Consolidated Statement of Operations and Changes in Net Assets

Year Ended September 30, 2012
(In Thousands)

Revenues:	
Patient services revenue, net of contractual allowances and discounts	\$ 1,406,230
Provision for uncollectible accounts	(30,789)
Net patient services revenue	1,375,441
Research grants and contracts	178,781
Recovery of indirect costs on grants and contracts	69,678
Other operating revenue	65,474
Endowment income support for mission-related activities	26,590
Unrestricted contributions, net of fundraising expenses of \$8,076	6,959
Net assets released from restrictions used for operations	45,850
Total revenues	1,768,773
Expenses:	
Salaries and benefits	957,084
Supplies and other expenses	407,886
Direct research expenses of grants	178,781
Health Safety Net assessment	8,314
Depreciation and amortization	97,901
Interest and net interest rate swap cash flows	28,593
Total expenses	1,678,559
Gain from current operations	90,214
Changes in estimates of prior year third-party settlements	9,908
Gain from operations	100,122
Nonoperating gains (losses):	
Income from investments	5,460
Net realized gain on investments	53,746
Unrealized gain on investments classified as trading securities	21,464
Increase in value of alternative investments	90,241
Recognition of unrealized losses on investments	(8,815)
Fundraising expenses on restricted contributions	(18,846)
Adjustment of interest rate swaps to fair value	(6,096)
Other nonoperating losses	(7,851)
Total nonoperating gains	129,303
Excess of revenues over expenses	229,425

Children's Medical Center and Subsidiaries

Consolidated Statement of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2012
(In Thousands)

Changes in unrestricted net assets:	
Excess of revenues over expenses	\$ 229,425
Net assets released from restrictions for capital asset acquisitions	1,751
Net unrealized gain on investments	127,922
Net asset transfer related to donor-match program	(3,122)
Appreciation on endowment funds	734
Pension adjustment	(38,033)
Increase in unrestricted net assets	318,677
Changes in temporarily restricted net assets:	
Contributions	77,517
Income and net realized gain on investments	5,213
Recognition of unrealized losses on investments	(1,360)
Increase in value of alternative investments	11,499
Net unrealized gain on investments	15,520
Net asset transfer related to donor-match program	129
Appreciation on endowment funds	(734)
Net assets released from restrictions	(47,601)
Increase in temporarily restricted net assets	60,183
Changes in permanently restricted net assets:	
Contributions	11,923
Net assets transfer related to donor-match program	2,993
Increase in permanently restricted net assets	14,916
Increase in net assets	393,776
Net assets at beginning of year (as adjusted, Note 1)	3,471,422
Net assets at end of year	\$ 3,865,198

See accompanying notes.

Children's Medical Center and Subsidiaries

Consolidated Statement of Cash Flows

Year Ended September 30, 2012

(In Thousands)

Operating activities	
Change in net assets	\$ 393,776
Noncash and nonoperating activities included in change in net assets:	
Depreciation and amortization	97,901
Restricted contributions	(89,440)
Net realized and unrealized gain on investments	(292,488)
Net unrealized gains on investments classified as trading securities	(21,464)
Changes in operating assets and liabilities:	
Investments classified as trading	(36,126)
Patient accounts receivable	12,892
Other accounts receivable	(7,319)
Other current assets	(44,108)
Accounts payable and accrued expenses	(3,848)
Estimated third-party liabilities	(4,387)
Other liabilities	99,194
Net cash provided by operating activities	<u>104,583</u>
Financing activities	
Payments of note payable	(819)
Capital lease payments	(969)
Decrease in pledges receivable	(38,673)
Restricted contributions	89,440
Net cash provided by financing activities	<u>48,979</u>
Investing activities	
Purchases of investments	(1,070,303)
Proceeds from sales of investments	1,034,514
Additions to fixed assets, net of retirements	(141,099)
Increase in other assets whose use is limited	(2,672)
Net cash used in investing activities	<u>(179,560)</u>
Net decrease in cash and cash equivalents	(25,998)
Cash and cash equivalents at beginning of year	<u>208,979</u>
Cash and cash equivalents at end of year	<u><u>\$ 182,981</u></u>

See accompanying notes.

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2012

1. Summary of Significant Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Children's Medical Center Corporation and its subsidiaries (collectively the Medical Center) including: (a) Children's Hospital (the Hospital), which engages in pediatric patient care, research, training and community service; (b) 15 tax-exempt Foundations (the Foundations), which are organized for charitable, scientific, and educational purposes, and operate for the benefit of the Hospital and Harvard Medical School (Harvard) by providing medical and health care services primarily to patients at the Hospital and of other health care providers at satellite locations; (c) the Physicians' Organization at Children's Hospital Inc. (the P.O.), which provides coordination and general oversight of the clinical and medicine practices and related health care services of the Foundations; (d) Immune Disease Institute, Inc., which conducts research on the functions and uses of blood and other tissues; (e) CHB Properties, Inc., which owns and operates real property and distributes the net income of such property to the Medical Center; (f) Longwood Research Institute, Inc., which holds real property for the benefit of the Hospital in the furtherance of its research mission; (g) Fenmore Realty Corporation, which owns and operates real property and distributes the net income of such property to the Medical Center; and (h) Longwood Corporation, which owns and operates real property and distributes the net income of such property to the Medical Center.

In 2012, the Medical Center assumed additional oversight of certain activities of the Foundations. This change increased the level of control that the Medical Center exercises over the P.O. and the Foundations such that, as permitted by accounting principles generally accepted in the United States, they should be consolidated into the Medical Center's financial statements. Consequently, beginning in 2012, the consolidated financial statements of the Medical Center include the accounts of these controlled affiliates. Net assets reported as of September 30, 2011, in the accompanying consolidated statement of operations and changes in net assets has been restated to retrospectively account for this change in reporting entity. The effect of this change on the significant components of the change in the Medical Center's consolidated net assets was as follows for the year ended September 30, 2012 (in thousands):

Change in unrestricted net assets:	
Excess of revenues over expenses	\$ 124,435
Other changes in unrestricted net assets	14,206
	<hr/>
	138,641
Change in temporarily restricted net assets	(35,007)
Change in permanently restricted net assets	(36,058)
	<hr/>
Total change in net assets	<u>\$ 67,576</u>

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Certain Foundations have fiscal year-ends that differ from the Medical Center's fiscal year-end date of September 30. The Medical Center has consolidated the financial statements of these Foundations based on their most recent audited financial statements as of September 30, 2012, which in no case is more than three months prior to this date.

All material intercompany balances and transactions are eliminated in the consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents include money market instruments with average maturities of less than 90 days, excluding amounts included in investments and other assets whose use is limited. Cash balances maintained with financial institutions may exceed federal depository insurance limits; however, management believes the credit risk related to these financial institutions is minimal. The Medical Center has not experienced any losses in such accounts, and it believes it is not exposed to any significant risk at September 30, 2012.

Investments and Other Assets Whose Use Is Limited

Investments and other assets whose use is limited include the following: Board-designated assets for plant replacement and expansion and mission-related activities; donor-restricted assets and funds held for others (all of which participate in the investment pool); externally managed trusts associated with deferred giving arrangements; and deferred compensation (which are invested primarily in mutual funds and government obligations, and are reported at fair market value).

Medical Center

The Medical Center follows the practice of pooling resources of unrestricted and restricted assets for long-term investment purposes. The investment pool is operated on the market value method, whereby each participating fund is assigned a number of units based on the percentage of the pool it owns at the time of entry. Income, gains, and losses of the pool are allocated to the funds based on their respective participation in the pool.

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Investments in marketable debt and equity securities are stated at fair market value determined principally from quoted market prices. Realized gains and losses on investment transactions are computed on an average-cost basis. Net realized gains or losses on unrestricted investments and impairments in investment values that are determined to be other than temporary are reported as nonoperating gains (losses). Net unrealized gains or losses on unrestricted assets are recorded as an increase or decrease in unrestricted net assets. Net realized and unrealized gains or losses on restricted assets are recorded as an increase or decrease to the restricted net asset balance. Unrestricted investment income is reported in nonoperating gains. Investment income on endowment funds appropriated by the Board of Trustees for expenditure is reported as nonoperating gains except for \$26,590,000 in 2012, which was appropriated to support specific mission related operating activities and is reported as operating revenue. Restricted investment income is recorded as an increase to the restricted net asset balance.

Real estate purchased and held for investment is accounted for at cost less accumulated depreciation.

Alternative investments (nontraditional, not readily marketable holdings) include hedge funds and private equity funds. Alternative investment interests generally are structured such that the Medical Center holds a limited partnership interest. The Medical Center ownership structure does not provide for control over the related investees and the associated financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment. Future funding commitments for alternative investments aggregated approximately \$121,993,000 at September 30, 2012.

Alternative investments are reported in the accompanying consolidated balance sheet based upon net asset values derived from the application of the equity method of accounting. Financial information used by the Medical Center to evaluate its alternative investments is provided by the investment manager or general partner and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Medical Center's annual financial statement reporting. There is uncertainty in the valuation for alternative investments arising from factors, such as lack of active markets (primary and secondary), lack of transparency into underlying holdings, and time lags associated with reporting by investee companies. As a result, there is at least a reasonable possibility that estimates will change in the near term.

Children's Medical Center and Subsidiaries
Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Foundations

The Foundations classify their investments as trading securities with investment income (including realized and unrealized gains and losses on investments, interest, and dividends) included in the excess of revenues over expenses unless the income is restricted by donor or law. Investments in marketable equity and debt securities and mutual funds are carried at quoted market values (fair value) of the investments at the balance sheet date. The Foundations also invest in alternative investments and report their investments on the same basis as the Medical Center as described above.

Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market and are recorded in other current assets on the consolidated balance sheet.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Interest costs incurred during the construction period of major projects are capitalized as a component of the cost of these assets, and are depreciated over the estimated useful lives of the assets. The costs of repairs and maintenance are charged to expense as incurred.

Depreciation and amortization is computed on the straight-line method based on the estimated useful lives of the assets. The estimated useful lives conform to the guidelines established by the American Hospital Association. The Medical Center's policy is to fund depreciation expense in amounts not exceeding cumulative allowable depreciation expense.

Original Issue Discount and Debt Issuance Fees

Unamortized original issue discount and the costs associated with the issuance of debt are amortized using the interest method over the life of the bond issue and are recorded in other assets on the consolidated balance sheet.

Pledges

Unconditional pledges, less an allowance for uncollectible amounts, are recorded as a receivable in the year made. Pledges receivable over a period greater than one year are stated at net present value.

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Net Assets

The accompanying consolidated balance sheet classifies net assets into three categories: unrestricted, temporarily restricted, and permanently restricted. Net assets that bear no external restriction as to use or purpose are classified as unrestricted. Also included in unrestricted net assets are assets whose use is limited under debt or trust agreements and Board-designated funds for plant replacement and expansion, and mission-related activities.

Net assets, which are restricted by donors or grantors as to use or purpose, are classified as either temporarily restricted or permanently restricted:

Temporarily restricted net assets are restricted by the donor or grantor, principally for the support of research, patient care, departmental support, medical education, community health services, and the acquisition of property, plant, and equipment. When a restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of operations and changes in net assets as net assets released from restrictions.

Permanently restricted net assets represent contributions to the Medical Center, the principal of which may not be expended. Income from permanently restricted net assets may be unrestricted or restricted in accordance with the donor's request. In accordance with the laws of the Commonwealth of Massachusetts, gains on permanently restricted net assets are recorded as temporarily restricted net assets until appropriated for expenditure by the Board of Trustees.

Net Patient Services Revenue

Revenues are recorded during the period the health care services are provided, based upon the estimated net realizable amounts due from patients and third-party payors. Third-party payors include federal and state agencies (under Medicare, Medicaid and other programs), managed care health plans, commercial insurance companies, and employers. Estimates of contractual allowances related to third-party payors are based upon the payment terms specified in the related contractual agreements. Contractual adjustments are accrued on an estimated basis in the period in which the related services are rendered. If estimated allowances are adjusted in future periods, the adjustments are recorded as changes in estimates of prior year third-party settlements. Revenues related to uninsured patients and copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). The Medical Center and its subsidiaries

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

also record a provision for doubtful accounts related primarily to uninsured accounts to record the net self-pay accounts receivable at the estimated amounts expected to be collected. The provision for bad debt expense is based upon management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage, and other collection indicators. Accounts receivable are reduced by an allowance for doubtful accounts. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category, including those amounts not covered by insurance. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the Medical Center follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the Medical Center. Accounts receivable are written off after collection efforts have been followed in accordance with the Medical Center's policies.

Research Grants and Contracts

The Medical Center, through the Hospital and Immune Disease Institute, Inc. subsidiaries, engages in research activities funded by grants and contracts with federal and state governments, and various private sources. Revenues associated with grants and contracts are recognized as the related costs are incurred. Research funds received in advance are reported as deferred revenue, and are recognized as earned revenue as the related research expenditures are incurred. Recoveries of indirect costs relating to certain government grants and contracts are reimbursed at predetermined rates negotiated with government agencies. Recoveries of indirect costs relating to nongovernment grants are reimbursed at varying rates, depending upon sponsor policies.

Contributions

Unrestricted contributions are recorded as operating revenue; restricted contributions are recorded as additions to restricted net asset balances. Donated securities and property are recorded at fair market value as of the date of donation.

Income Taxes

The Medical Center, the Hospital, the Foundations, the P.O., CHB Properties, Inc., Longwood Research Institute, Inc., and Immune Disease Institute, Inc. are exempt from income taxes on related business income pursuant to Internal Revenue Code (the Code) Section 501(c)(3). Longwood Corporation and Fenmore Realty Corporation are exempt from income taxes on related business income pursuant to Code Section 501(c)(2).

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

New Accounting Standards

In 2012, the Medical Center and its subsidiaries adopted the provisions of Accounting Standards Update (ASU) 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU 2011-07 requires health care entities to change the presentation of the statement of operations by reclassifying the provision for doubtful accounts from an operating expense to a deduction from patient service revenues.

In 2012, the Medical Center and its subsidiaries adopted the provisions of ASU No. 2010-23, *Measuring Charity Care for Disclosure*. ASU 2010-23 addressed the diversity in the accounting for charity care, which some entities determine on the basis of a cost measurement, while others use a revenue measurement. The provisions require that the measurement of charity care for disclosure purposes be based on the direct and indirect costs of providing the charity care.

In 2012, the Medical Center and its subsidiaries adopted the provisions of ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. ASU 2010-24 requires health care entities to separately record the liability related to estimated insurance losses and the receivable related to estimated recoveries under insurance coverage for recoveries of the potential losses.

In 2011, FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS*. ASU 2011-04 represents clarifications of existing guidance on fair value measurements and disclosures, but also includes some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRS. The Medical Center will adopt this update in its fiscal year beginning October 1, 2013, and is currently evaluating the impact to its financial statements.

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Investments and Other Assets Whose Use Is Limited

Investments and other assets whose use is limited consist of the following at fair value at September 30, 2012 (in thousands):

Pooled investments:	
Equity securities	\$ 895,374
Fixed income securities	600,487
Alternative investments	1,230,486
Total pooled investments	<u>2,726,347</u>
Nonpooled investments:	
Cash equivalents	221,461
Mutual funds	108,684
Equity securities	192,999
Fixed income securities	311,747
Real estate	243,343
Other	769
Total nonpooled investments	<u>1,079,003</u>
Externally administered trusts (marketable debt and equity securities)	47,308
Total investments and other assets whose use is limited	<u>\$ 3,852,658</u>

Individual investment holdings within the alternative investments include nonmarketable and market-traded debt, equity and real asset securities, and interests in other alternative investments. The Medical Center may be exposed indirectly to securities lending, short sales of securities, and trading in futures and forward contracts, options, and other derivative products. Alternative investments often have liquidity restrictions under which the Medical Center's capital may be divested only at specified times. The Medical Center's liquidity restrictions may be up to seven years or longer for certain private equity investments. Liquidity restrictions may apply to all or portions of a particular invested amount.

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Investments and Other Assets Whose Use Is Limited (continued)

At September 30, 2012, these investments and other assets whose use is limited are presented in the accompanying consolidated balance sheet as follows (in thousands):

Investments, unrestricted as to use	\$ 1,488,284
Investments and other assets whose use is limited:	
By Board designation for plant replacement and expansion, and mission-related activities	1,739,757
By donor-imposed restriction	466,734
By deferred compensation and other benefit-obligations	102,309
By externally administered trusts	47,308
Other:	
As funds held for others	993
Other	7,273
	<u>8,266</u>
Total investments and other assets whose use is limited	<u>\$ 3,852,658</u>

For the year ended September 30, 2012, investment earnings were reported as follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividend income:			
Operating revenue	\$ 26,590	\$ -	\$ 26,590
Nonoperating revenue	5,460	-	5,460
Increase in temporarily restricted net assets	-	1,478	1,478
Increase in value of alternative investments	90,241	11,499	101,740
Net realized gain	53,746	3,735	57,481
Recognition of unrealized losses	(8,815)	(1,360)	(10,175)
Net unrealized gains on available for sale securities	127,922	15,520	143,442
Net unrealized gains on trading securities	21,464	-	21,464
Total return on investments	<u>\$ 316,608</u>	<u>\$ 30,872</u>	<u>\$ 347,480</u>

Investment income is reported net of fees of \$7,135,000 for the year ended September 30, 2012.

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Investments and Other Assets Whose Use Is Limited (continued)

The Medical Center retains professional investment managers for the management of all pooled investments. These managers invest in temporary cash investments, fixed income securities, and equities. In addition, as part of their investment strategy, certain managers may engage in short-selling and futures and options trading. Management believes that the risk of accounting loss, associated with short-selling and futures and options-trading strategies, is no greater than that associated with other investment strategies, which do not involve off-balance sheet risk.

Management continually reviews its investment portfolio where the fair value is below cost, and in cases where the decline is considered to be other than temporary, an adjustment is recorded to realize the loss. The Medical Center recorded a realized loss for other-than-temporary declines in the fair value of investments of approximately \$10,175,000 for the year ended September 30, 2012, of which \$8,815,000 is included in unrestricted investment income, and \$1,360,000 is included in changes in temporarily restricted net assets. There were no investments that had aggregate gross unrealized losses at September 30, 2012.

3. Contributions

Contributions received and pledged to the Medical Center were as follows for the year ended September 30, 2012 (in thousands):

Gross contributions	\$ 108,607
Provision for uncollectible accounts	(1,138)
Amortization of discount	<u>(2,809)</u>
Net contributions	<u>\$ 104,660</u>

These contributions are reported in the accompanying consolidated financial statements in accordance with donors' restrictions as follows for the year ended September 30, 2012 (in thousands):

Unrestricted contributions	\$ 15,035
Temporarily restricted	77,517
Permanently restricted	<u>12,108</u>
Net contributions	<u>\$ 104,660</u>

In addition to the \$108,607,000 in gross contributions raised, the Medical Center raised \$22,689,000 in nongovernmental grant awards, to bring the total funds raised to \$131,296,000 for the year ended September 30, 2012.

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Contributions (continued)

Contributions pledged to the Medical Center are due as follows at September 30, 2012 (in thousands):

Due in less than one year	\$ 30,384
Due in one to five years	48,524
Due in more than five years	32,155
	<u>111,063</u>
Less discount to present value	(7,003)
Less allowance for uncollectible pledges	<u>(5,677)</u>
Total pledges receivable, net	98,383
Less current portion of pledges receivable, net	<u>(28,934)</u>
Noncurrent portion of pledges receivable, net	<u>\$ 69,449</u>

4. Free Care, Health Safety Net Trust, and Community Services

The Medical Center's commitment to community service is evidenced by services provided to the poor and benefits provided to the broader community. Services provided to the poor include services provided to persons who are uninsured or underinsured without expectation of payment or at amounts less than its established rates.

The Medical Center provides quality medical care regardless of race, creed, sex, sexual orientation, national origin, handicap, age, or ability to pay. Although reimbursement for services rendered is critical to the operations and stability of the Medical Center, it is recognized that not all individuals possess the ability to pay for essential medical services and that the Medical Center's mission is to serve the community with respect to health care and health care education. In keeping with the Medical Center's commitment to serve members of the community, the Medical Center provides the following: charity care to the indigent; care to persons covered by governmental programs at below cost; and health care activities and programs to support the community. These activities include wellness programs, community education programs, health screenings, and a broad variety of community support services.

The Medical Center also provides resources to support numerous initiatives aimed at contributing to the physical and psychological well-being of children, youth, and families living in the Medical Center's community. These initiatives include programs at the Medical Center, and in collaboration with community-based organizations, to provide comprehensive services to adolescent mothers and children, HIV outreach services, services to reduce infant mortality, assistance to the homeless, and training and other related services to individuals with developmental disabilities. The Medical Center also provides medical services to the community through its emergency room, which operates 24 hours a day, and is available to all regardless of ability to pay.

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Free Care, Health Safety Net Trust, and Community Services (continued)

The Medical Center makes available free care programs for qualifying patients under its charity care and financial aid policy. The Medical Center obtains additional financial information for uninsured or under-insured patients who do not qualify or have not supplied requisite information to qualify for charity care. The additional information is used by the Medical Center in determining whether to qualify patients for charity care and/or financial aid. For patients who were determined by the Medical Center to have the ability to pay but did not, the uncollected amounts are reported as bad debt expense.

The costs of uncompensated care (other than bad debts) and community benefit activities are derived from various Medical Center records. Amounts for activities as reported below are based on estimated and actual data, subject to changes in estimates upon the finalization of the Medical Center's cost report, and other government filings. The amounts reported below are calculated in accordance with guidelines prescribed by the Internal Revenue Service (IRS). The net cost of charity includes the direct and indirect cost of providing charity care services, and is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care.

As the Hospital and the Foundations do not pursue collection of amounts determined to qualify as free care, they are not reported as net patient services revenue. The Hospital also supports the delivery of health care services to the indigent through payments to the Health Safety Net Trust (HST), which is administered by the Commonwealth of Massachusetts. The amounts of HST assessment and receipts, provision for uncollectible accounts, and free care were as follows for the year ended September 30, 2012 (in thousands):

HST assessment	\$ 8,314
HST receipts (net patient service revenue)	<u>(3,850)</u>
Net disbursements to HST	4,464
Provision for uncollectible accounts	30,789
Free care (at cost)	<u>9,231</u>
Total HST, provision and free care	<u>\$ 44,484</u>

Children's Medical Center and Subsidiaries
Notes to Consolidated Financial Statements (continued)

5. Property, Plant, and Equipment

Property, plant, and equipment consist of the following at September 30, 2012 (in thousands):

Land and improvements	\$ 17,050
Buildings, leasehold, and related improvements	1,324,489
Equipment	594,983
Construction-in-progress	127,705
	<u>2,064,227</u>
Less accumulated depreciation and amortization	(1,150,816)
	<u>\$ 913,411</u>

At September 30, 2012, the Medical Center had commitments of approximately \$101,564,000 to complete projects relating to capital construction and software development.

6. Asset Retirement Obligations

Conditional asset retirement obligations amounted to \$16,658,000 as of September 30, 2012. These obligations are recorded in other liabilities in the accompanying consolidated balance sheet. There are no assets that are legally restricted for purposes of settling asset retirement obligations.

During 2012, retirement obligations incurred and settled amounted to \$1,615,000. Accretion expense of \$1,787,000 was recorded during the year ended September 30, 2012.

7. Other Assets

Other assets consist of the following at September 30, 2012 (in thousands):

Expected insurance recoveries for professional liability claims (Note 14)	\$ 42,753
Employee loans receivable	11,104
Medical resident tax refund (Note 16)	7,079
Unamortized debt issuance costs	3,971
Other	922
	<u>\$ 65,829</u>

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Leases

The Medical Center and its subsidiaries lease clinical and office space under operating leases, some of which include fixed escalation clauses, which expire at various dates through 2028. The obligations under noncancelable leases as of September 30, 2012, are as follows (in thousands):

2013	\$ 28,507
2014	29,242
2015	29,271
2016	29,755
2017	28,277
Thereafter	139,597
Total operating leases	<u>\$ 284,649</u>

Rent expense was approximately \$41,298,000 for the year ended September 30, 2012.

The Medical Center records rent expense on a straight-line basis over the life of the lease and records accrued rent as the difference between rent expense and actual payments made. As of September 30, 2012, the accumulated difference between rent expense and amounts paid amounted to \$8,088,000, which is included in other liabilities in the accompanying consolidated balance sheet.

9. Long-Term Debt and Mortgage Notes

Long-term debt consists of the following at September 30, 2012 (in thousands):

Bank term loan	\$ 200,000
Massachusetts Health and Educational Facilities Authority (MHEFA) issues:	
Series M	124,520
Series N	341,590
Other	1,667
	<u>667,777</u>
Less current portion of long-term debt	870
	<u>\$ 666,907</u>

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Long-Term Debt and Mortgage Notes (continued)

Bank Term Loan

On August 28, 2008, the Hospital entered into a term loan agreement with a bank in the amount of \$200,000,000. Proceeds from the loan were used to purchase the Children's Hospital Series-1 and L-2 MHEFA Revenue Bonds from the bank. These bonds were previously purchased by the bank during 2008 under the terms of the standby bond purchase agreement, which was triggered when remarketing efforts on these bonds began to fail. The bank loan bears interest at a variable rate of 0.72% at September 30, 2012, and is scheduled to mature on October 15, 2014. Interest payments are due monthly.

Series M Bonds

On November 18, 2009, the Hospital issued Series M MHEFA Revenue Bonds in the aggregate principal amount of \$126,110,000. The Bond proceeds were used to reimburse and fund certain capital additions, renovations, and equipment expenditures. The bonds, with a final maturity in December 2039, were issued at a net discount in the amount of \$1,780,287 to bear interest at yields, which increase from 5.30% to 5.40% as maturities lengthen. Interest payments are due semiannually. The first annual principal payment is due in 2033.

Series N Bonds

On May 13, 2010, the Hospital issued Series N MHEFA Revenue Bonds in the amount of \$341,590,000. The Bond proceeds redeemed MHEFA's Revenue Bonds, Children's Hospital Issue, Periodic Auction Reset Securities Series G, H, I, J, and K. The Series N Bonds have a final maturity in October 2049 and were issued as Variable Rate Demand Revenue Bonds secured by bank letters of credit. These bank letters of credit will expire on October 15, 2013 and May 13, 2015. Interest payments are due monthly. Interest on the bonds is variable based on weekly (Series N-1, N-2, N-3) and daily (Series N-4) auctions and was 0.15%, 0.16%, 0.18%, and 0.22% for Series N-1, N-2, N-3, and N-4, respectively, on September 30, 2012.

Other

During 2008, IDI obtained MHEFA financing of \$2,900,000 for equipment to be purchased under capital leases. Principal and interest are paid semiannually through 2013 at an annual interest rate of 3.0%. The outstanding balance as of September 30, 2012, is \$616,000.

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Long-Term Debt and Mortgage Notes (continued)

During 2011, IDI obtained MHEFA financing of \$1,300,000 for equipment to be purchased under capital leases. Principal and interest are paid semiannually through 2016 at an annual interest rate of 2.15%. The outstanding balance as of September 30, 2012 is \$1,051,000.

Total obligations under all capital leases approximated \$1,667,000 at September 30, 2012. Future obligations amount to \$905,000 in 2013, \$276,000 in 2014, \$276,000 in 2015, and \$275,000 in 2016. Amounts representing capital lease interest approximate \$65,000 at September 30, 2012.

Mortgage Notes

On August 1, 2008, Fenmore Realty Corporation entered into a mortgage note in the amount of \$43,250,000. The note is secured by certain real estate investments. The note bears interest at a fixed rate of 6.53%, and matures at varying annual amounts through 2018. The principal and interest payments are \$3,291,000 each year through 2018.

On November 9, 2009, CHB Properties, Inc. acquired the remaining property interest in a medical office building and assumed the balance of the mortgage note in the amount of \$27,837,000. The note bears interest at a fixed rate of 5.54% and matures at varying annual amounts through 2014. Principal and interest payments of \$1,742,000 are due monthly.

As of September 30, 2012, the Medical Center was in compliance with its debt covenants.

Future Maturities

Future maturities of long-term debt and mortgage notes as of September 30, 2012, are as follows:

	Bank Term Loan	Series M Bonds	Series N Bonds	Mortgage Notes	Others	Total
Years Ending						
September 30:						
2013	\$ -	\$ -	\$ -	\$ 522	\$ 870	\$ 1,392
2014	-	-	-	1,270	260	1,530
2015	200,000	-	-	27,424	265	227,689
2016	-	-	-	762	272	1,034
2017	-	-	-	814	-	814
Thereafter	-	126,110	341,590	37,370	-	505,070
Total	\$ 200,000	\$ 126,110	\$ 341,590	\$ 68,162	\$ 1,667	\$ 737,529

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Long-Term Debt and Mortgage Notes (continued)

Interest Rate Swap Agreements

The Medical Center was a party to the following interest rate swap agreements as of September 30, 2012:

Inception Date	Notional Amount	Fixed Interest Rate	Maturity Date
December 2007	\$ 120,000,000	3.42%	December 2041
May 2006	119,875,000	3.57	April 2040
August 2004	70,000,000	4.00*	October 2027
November 2003	50,000,000	3.13	November 2040
December 2001	35,000,000	4.72	December 2021
December 2001	35,000,000	4.72	December 2026
May 2001	105,250,000	4.58	December 2036

*Fixed at 4.0% through October 1, 2027, if the variable-rate tax-exempt index reaches 4.5%.

The Medical Center uses interest rate swap agreements in order to manage its interest rate risk associated with its outstanding debt. These swaps effectively convert interest rates on variable rate bonds to fixed rates. The interest rate swap agreements meet the definition of derivative instruments. Consequently, the aggregate fair value of the swaps (a liability of \$155,581,000 at September 30, 2012) is reported in long-term liabilities in the accompanying consolidated balance sheet, and the change in fair value of \$6,096,000 for the year ended September 30, 2012, is reported as a nonoperating loss in the consolidated statement of operations and changes in net assets. The swaps, while serving as an economic hedge, do not qualify as an accounting hedge.

Cash flows under the swaps netted to payments of approximately \$17,528,000 in 2012 which is reported with interest expense in the statement of operations and changes in net assets.

Three of the interest rate swaps are cancellable at the option of the counterparty at any time if the variable interest rate is greater than or equal to 7%. The aggregate fair value of these swaps as of September 30, 2012 is a liability of approximately \$38,724,000.

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Long-Term Debt and Mortgage Notes (continued)

Guaranteed Debt

As security to the Hospital's bank term loan and Series M and N bondholders, the Medical Center has executed unconditional and irrevocable guaranties of full and punctual payment of all obligations of the Hospital under the terms of the related loan agreements.

The Hospital has also guaranteed \$630,000 of the principal of \$4,410,000 of revenue bonds issued by MHEFA on behalf of the Community Health Center Capital Funds. As of September 30, 2012, there have not been any requirements to honor calls under this guarantee.

Interest paid was \$12,141,000 for the year ended September 30, 2012. Interest capitalized in connection with ongoing construction projects approximated \$1,067,000 in 2012.

10. Restricted Net Assets

Temporarily restricted net assets at September 30, 2012 are comprised of the following (in thousands):

Mission-related activities	\$ 240,036
Accumulated gains on permanently restricted net assets	204,369
	<u>\$ 444,405</u>

Permanently restricted net assets at September 30, 2012, are restricted as follows (in thousands):

Investments to be held in perpetuity, the income from which is:	
Unrestricted as to use	\$ 28,089
Restricted for patient care-related activities	120,586
Restricted for research	1,532
Restricted for medical education	17,813
	<u>\$ 168,020</u>

The Medical Center follows the requirements of the Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) as they relate to its permanently restricted endowments. The Medical Center's endowments consisted of numerous individual funds established for a variety of purposes and included both donor-restricted endowment funds and unrestricted Board-designated funds held as endowments. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Restricted Net Assets (continued)

Management of the Medical Center has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the date of the gift absent explicit donor stipulation to the contrary. Permanently restricted net assets are classified as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. The Medical Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of the Medical Center and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, and (6) the investment policies of the Medical Center.

For the year ended September 30, 2012, the components of endowment-related activities include the following (in thousands):

	Board- Designated Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total Endowment Funds
Year ended September 30, 2012				
Endowment net assets at beginning of year	\$ 675,707	\$ 207,078	\$ 122,148	\$ 1,004,933
Investment return:				
Investment income	5,104	2,160	-	7,264
Net appreciation/(depreciation)	80,761	34,729	-	115,490
Total investment return	85,865	36,889	-	122,754
Contributions	21,879	-	13,487	35,366
Net asset reclassifications	14,189	-	3,193	17,382
Amounts appropriated for expenditure	(29,853)	(13,265)	-	(43,118)
Endowment net assets at end of year	<u>\$ 767,787</u>	<u>\$ 230,702</u>	<u>\$ 138,828</u>	<u>\$ 1,137,317</u>

The Medical Center's investment and spending policies for endowment assets are intended to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Medical Center must hold in perpetuity and the unexpended appreciation on those funds

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Restricted Net Assets (continued)

and unrestricted funds, which the Board has designated to function as endowments in support of mission-related activities. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in manners that are expected to generate a long-term rate of return of approximately 7% per annum. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Medical Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized), and current yield (interest and dividends). The Medical Center targets a diversified asset allocation that consists of equities, fixed income, and alternative investments.

The Medical Center has a policy of appropriating, for distribution each year, no more than 5% of its endowment funds' "three-year trailing average market value." In establishing this policy, the Medical Center considered the long-term expected return on its endowments.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Medical Center to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets are \$3,337,000 as of September 30, 2012. These deficiencies resulted from unfavorable market fluctuations.

The Hospital's donor match program matches certain permanently restricted gifts from donors under a predefined ratio. This program has resulted in several major gifts to the Hospital in support of certain strategic purposes.

Net assets were released from donor or grantor restrictions during the year ended September 30, 2012, by incurring expenses satisfying the following restricted purposes (in thousands):

Mission-related activities	\$ 45,850
Property, plant, and equipment	<u>1,751</u>
	<u>\$ 47,601</u>

11. Net Patient Services Revenue

The Hospital and the Foundations have agreements with numerous third-party payors that provide for payments at amounts different from their established charges. Contracts with commercial providers provide for payments based on a variety of methodologies, including discounted charges, per-case/per-diem arrangements, and fee schedules for certain outpatient and professional services. Medicaid

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Net Patient Services Revenue (continued)

payments are based on a contract with the Massachusetts Executive Office of Health and Human Services, and hospital services are reimbursed on a standardized payment-per-encounter basis for outpatients, a standardized per-adjusted-discharge basis for inpatients and a fee schedule for professional services. Medicare reimbursements are based upon Medicare's proportionate share of reasonable costs for hospital services and a fee schedule for professional services. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revenues from Medicare and Medicaid, including Medicaid out-of-state programs, accounted for approximately 0.7% and 16.0%, respectively, of the Hospital and the Foundations' net patient services revenue for 2012.

During 2012, in connection with special legislative appropriations, the Medical Center received \$18,019,000 from the Federal Children's Hospital's GME program for reimbursement of graduate medical education expense. There is no guarantee that similar appropriations will occur in the future, or at what level.

Differences between estimated and final settlements are recorded as contractual adjustments in the year determined. The Medical Center recorded favorable adjustments of approximately \$9,908,000 in 2012, as a result of final settlements and other adjustments to prior year estimates.

The Hospital's and Foundations' allowances for doubtful accounts increased from 13% of accounts receivable at September 30, 2011, to 14% of accounts receivable at September 30, 2012. The Hospital's and Foundations' self pay and third party payor write-offs were \$48,229,000 and \$40,846,000 for fiscal years 2011 and 2012, respectively, tracking consistently at 3% of patient services revenue for these periods. There were no significant changes in the allowance for doubtful accounts during 2012. The Hospital and Foundations have not changed their charity care or uninsured discount policies during fiscal year 2012.

The Hospital and the Foundations grant credit without collateral to their patients. The concentration of credit risk by payor as measured by patient accounts receivables, net of contractual adjustments, was as follows for the year ended September 30, 2012:

Commercial/other managed care	33.3%
Blue Cross	23.7
Medicaid	19.1
International	12.1
Patients	9.6
Other governmental	2.2
Total	<u>100.0%</u>

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Net Patient Services Revenue (continued)

Revenues from third-party payors, the uninsured and other revenues for the fiscal year ended September 30, 2012 are summarized in the following table (in thousands):

	Amount	Ratio
Commercial/other managed care	\$ 566,448	40%
Blue Cross	490,276	35
Medicaid	236,979	17
International	54,320	4
Patients	14,141	1
Other governmental	23,473	2
Other	20,593	1
Revenues before provision for uncollectible accounts	1,406,230	100
Provision for uncollectible accounts	(30,789)	(2)
Net patient services revenue	\$ 1,375,441	98%

12. Employees' Retirement Plans

The Hospital sponsors two noncontributory, defined benefit retirement plans (the Regular Employees' Pension Plan and the Maintenance Employees' Pension Plan), which cover substantially all employees of the Hospital. The Regular Employees' Pension Plan and the Maintenance Employees' Pension Plan are cash balance plans under which benefits are based on the annuitized value of a participant's account, which consists of basic credits (determined on age, years of vesting service, and compensation), plus interest credits thereon. The measurement date of these plans is September 30. The Hospital does not provide post-retirement benefits other than pension to its retirees.

The Foundations maintain eight defined benefit pension plans for eligible employees at retirement based upon years of service, age, and compensation rates near retirement. These plans call for benefits to be paid to eligible employees at retirement based upon years of service and compensation earned as set forth in each plan. Contributions to these plans reflect benefits attributed to employees' services to date, as well as services expected to be earned in the future and are based upon actuarially determined requirements. Annual measurement dates for these respective plans are June 30 or September 30, based on their fiscal year-ends.

One of the Foundations also maintains a postretirement medical plan, which provides eligible participants and their dependents with postretirement health benefits. The plan is intended to qualify as a medical reimbursement plan under IRC Section 105(b). Participants must meet age and years of service requirements. A fixed amount is credited to a participant's accounts based on years of service, with a cost of living adjustment credited annually. The measurement date is June 30 for the postretirement medical plan.

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Employees' Retirement Plans (continued)

Reconciliation of Funded Status and Accumulated Benefit Obligation

A reconciliation of the changes in the defined benefit pension plans' aggregate projected benefit obligation, fair value of assets, and the accumulated benefit obligation of the plans as of September 30, 2012, and the year then ended, is as follows:

Change in benefit obligation	
Benefit obligation at beginning of year	\$ 573,796
Service cost	43,879
Interest cost	27,049
Actuarial loss	58,816
Effect of curtailment	168
Benefits paid	<u>(21,838)</u>
Benefit obligations at end of year	681,870
Change in plan assets	
Fair value of plan assets at beginning of year	537,320
Actual return on plan assets	54,195
Employer contributions	38,137
Benefits paid	<u>(21,838)</u>
Fair value of plan assets at end of year	<u>\$ 607,814</u>
Funded status	
Net pension liability at end of year	<u>\$ (74,056)</u>
Amounts not yet recognized in net periodic benefit cost and included in unrestricted net assets	
Actuarial net loss	\$ 124,006
Transition obligation cost	7,532
Prior service credit	<u>(23,445)</u>
	<u>\$ 108,093</u>
Components of net periodic benefit cost	
Service cost	\$ 43,879
Interest cost	27,049
Expected return on plan assets	(35,352)
Amortization of unrecognized net loss	1,966
Amortization of net transition obligation	813
Amortization of prior service credit	<u>(616)</u>
Net periodic pension cost	<u>\$ 37,739</u>
Accumulated benefit obligation	<u>\$ 582,868</u>

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Employees' Retirement Plans (continued)

Transition obligation cost of \$716,454, prior service credit of \$615,620, and unrecognized actuarial losses of \$3,620,320 are expected to be recognized in net period pension cost during the fiscal year ending September 30, 2013.

The weighted-average assumptions used to develop pension expense for the year ended September 30, 2012 are as follows:

Weighted-average assumptions for pension cost

Discount rates	4.00% - 5.50%
Expected return on plan assets	4.00% - 7.00%
Rates of compensation increase	2.00% - 5.00%

The weighted-average assumptions used to develop the projected benefit obligation at September 30, 2012 are as follows:

Weighted-average assumptions for benefit obligation

Discount rate	3.75% - 4.25%
Rate of compensation increase	2.00% - 4.00%

Plan Assets

To develop the expected long-term rate of return on plan assets assumption, the Medical Center considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolios.

The plans' investment objectives are to achieve long-term growth in excess of long-term inflation, and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on plan assets over a long-term time horizon. In order to minimize risk, the plans intend to minimize the variability in yearly returns. The plans also intend to diversify their holdings among asset classes, investment managers, sectors, industries, and companies. The Hospital's and Foundations' target asset policy guidelines include total equities between 45% and 75%, total fixed income between 10% and 40%, and other strategies between 5% and 25%.

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Employees' Retirement Plans (continued)

The Hospital's and Foundations' pension plans' weighted-average asset allocations at September 30, 2012, by asset category, are as follows:

Domestic equities	31.3%
Cash and cash equivalents	29.0
Fixed income	24.5
International equities	9.8
Mutual funds	5.4
Total	<u>100.0%</u>

Contributions

The Hospital and Foundations expect to contribute an aggregate of approximately \$31,196,000 to their pension plans in 2013.

Estimated Future Benefit Payments

Benefit payments, which reflect expected future service, are expected to be paid as follows (in thousands):

<u>Fiscal Year</u>	<u>Pension Benefits</u>
2013	\$ 37,864
2014	21,726
2015	20,546
2016	26,525
2017	37,096
Years 2018 - 2023	227,442

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Employees' Retirement Plans (continued)

Certain physicians, by virtue of their joint appointments at the Hospital and Harvard University, are eligible for participation in the Harvard Retirement Plan for Teaching Faculty (the Harvard Plan), a defined contribution plan, and do not participate in the Hospital's plans. The Hospital's pension expense related to the Harvard Plan was approximately \$5,464,000 for the year ended September 30, 2012.

The Hospital has a 403(b) Tax-Deferred Annuity Plan under which contributions can be made by employees. The Hospital makes contributions to the plan based on a percentage of annual eligible earnings. Hospital contributions under the plan amounted to \$5,362,000 for the year ended September 30, 2012.

The Foundations have established 18 defined contribution plans to provide their long-term physician employees with fair and adequate retirement benefits. These include traditional 403(b) plans, money purchase plans, and profit-sharing plans. The basis for determining contributions range from 7.8% to 25% based on compensation of eligible employees. Total expense recognized by the Foundations under the defined contribution plans for the year ended September 30, 2012 amounted to \$22,533,636.

Immune Disease Institute, Inc. maintains a retirement annuity plan and money purchase pension plan. Immune Disease Institute, Inc. makes contributions ranging from 8.5% to 12.5% of each eligible employee's gross salary depending upon their age. Contributions under the plan amounted to \$717,000 for the year ended September 30, 2012.

13. Deferred Compensation and Other Benefit Obligations

The Medical Center and Foundations maintain a program of integrated retirement plans such as 457(b), 457(f) and supplemental executive retirement plans to provide supplemental retirement benefits to certain employees. Plans provide either immediate vesting of benefits or may be determined by years of service and annual base compensation depending on the provisions set for the respective plans.

The Foundations have also established other profit sharing, severance benefit, education/tuition and long service plans to provide their physician employees with fair and adequate benefits. The benefits under these plans are administered based on the provisions set forth in the respective plan documents.

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Deferred Compensation and Other Benefit Obligations (continued)

The following table outlines the assets designated, accrued liabilities, and expenses recorded for the respective deferred compensation and other benefit plans as of and for the year ended September 30, 2012:

	Assets	Liabilities	Expense
Supplemental retirement benefit plans	\$ 55,862	\$ 67,666	\$ 8,880
Other benefit plan obligations	46,447	41,114	13,484
	\$ 102,309	\$ 108,780	\$ 22,364

14. Professional Liability

The Hospital's and the Foundations' primary professional and general liability insurance coverages are provided by Controlled Risk Insurance Company, Ltd. (CRICO), a corporation formed and wholly owned by the Harvard-affiliated medical institutions. The Hospital owns approximately 10% of CRICO's stock and accounts for this investment on a cost basis. The premiums paid to CRICO are actuarially determined based on asserted claims and reported, but unasserted, claims. CRICO obtains excess coverage from other insurers.

The Hospital's and the Foundations' professional liability insurance policy is a retrospectively rated policy and is on a claims-made basis. The Hospital and the Foundations accrue a liability for claims incurred but not reported, which as of September 30, 2012, was \$16,608,000. Additionally, at September 30, 2012, in connection with the accounting change described in Note 1, the Hospital and Foundations recorded a liability of \$42,753,000, related to estimated insured professional liability losses and a corresponding receivable of \$42,753,000, related to estimated recoveries under insurance coverage for recoveries of the potential losses.

Professional liability insurance expenses, net of recoveries, are as follows for the year ended September 30, 2012 (in thousands):

Professional liability insurance premiums, net of recoveries	\$ 12,110
Increase in reserve for incurred but not reported professional liability claims	1,494
Total	\$ 13,604

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Fair Value of Financial Instruments

The Medical Center uses the methods for calculating fair value as defined in Accounting Standard Codification Topic 820 to value its financial assets and liabilities, where applicable. Topic 820 defines fair value 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, and establishes a framework for measuring fair value. Fair value measurements are applied based on the unit of account from the reporting entity's perspective.

The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

Topic 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Medical Center uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, and considers nonperformance risk in its assessment of fair value.

These financial instruments exclude real estate and investments accounted for under the equity method of approximately \$1,473,829,000 at September 30, 2012.

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Fair Value of Financial Instruments (continued)

Financial instruments carried at fair value at September 30, 2012, are classified in the table below in one of the three categories described above (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
September 30, 2012				
Assets				
Cash and cash equivalents	\$ 338,532	\$ 4,031	\$ -	\$ 342,563
U.S. equities	532,243	52,552	-	584,795
Global equities	131,803	273,002	-	404,805
Investment-grade fixed income	234,803	447,873	-	682,676
High-yield fixed income	-	76,848	-	76,848
Global bonds fixed income	41,259	-	-	41,259
Real asset funds	165,237	80,646	-	245,883
	<u>\$ 1,443,877</u>	<u>\$ 934,952</u>	<u>\$ -</u>	<u>\$ 2,378,829</u>
Liabilities				
Interest rate swap agreements	<u>\$ -</u>	<u>\$ 155,581</u>	<u>\$ -</u>	<u>\$ 155,581</u>

Financial assets invested in the Medical Center's defined benefit pension plans are classified in the table below in one of the three categories described above at September 30, 2012 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 27,085	\$ -	\$ -	\$ 27,085
U.S. equities	69,975	17,899	-	87,874
Mutual funds	32,493	216	-	32,709
Global equities	45,272	43,094	-	88,366
Investment-grade fixed income	67,576	23,524	-	91,100
High-yield fixed income	3,361	22,939	-	26,300
Real asset funds	38,729	20,498	-	59,227
Domestic equity hedge funds	-	-	101,305	101,305
Distressed debt hedge funds	-	-	49,368	49,368
Multi-strategy hedge funds	-	-	31,568	31,568
Global equity hedge funds	-	-	7,694	7,694
Private equity partnerships	-	-	5,218	5,218
	<u>\$ 284,491</u>	<u>\$ 128,170</u>	<u>\$ 195,153</u>	<u>\$ 607,814</u>

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Fair Value of Financial Instruments (continued)

The following table sets forth a summary of changes in the fair value of the Level 3 assets for the year ended September 30, 2012 (in thousands):

Balance, beginning of year	\$ 173,050
Interest income	63
Net realized loss	(145)
Unrealized gains relating to investments still held at the reporting date	16,261
Purchases	22,840
Sales	(5,355)
Balance, end of year	<u>\$ 206,714</u>

The following table presents liquidity information for the financial instruments carried at net asset value as of September 30, 2012 (in thousands):

<u>Investment Type</u>	<u>Net Asset Value</u>	<u>Liquidity Restriction Range (Including Notice Period) for Redemption*</u>
U.S. equities	\$ 17,472	0 to 60 days
Global equities	42,136	30 to over 365 days
Investment grade fixed income	17,243	0 to 30 days
Real asset funds	20,061	0 to 60 days
Domestic equity hedge funds	99,695	90 to over 365 days
Distressed debt hedge funds	48,719	90 to over 365 days
Multi-strategy hedge funds	31,568	90 to over 365 days
Global equity hedge funds	7,694	90 to over 365 days
Private equity partnerships	5,218	Up to 7 years
	<u>\$ 289,806</u>	

*Notices for redemption can be anywhere from a few days before a redemption date to more than 90 days, assuming the fund has met its lockup period.

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Fair Value of Financial Instruments (continued)

Assets classified as Level 1 are valued using unadjusted quoted market prices for identical assets in active markets. Level 2 assets include U.S. and global equities, fixed income securities, and real asset funds. Fair value for Level 2 assets is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers. Fair value for Level 3 assets is determined using net asset values as a practical expedient, as permitted by generally accepted accounting principles, rather than using another valuation method to independently estimate fair value. There were no transfers between Level 1 and Level 2 during 2012.

The Level 2 liabilities are interest rate swap agreements. The fair value of interest rate swap agreements is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, Treasury yields, and credit spreads.

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

Accounts payable and accrued expenses: The carrying amount reported in the consolidated balance sheet for accounts payable and accrued expenses approximates its fair value.

Estimated third-party payor settlements: The carrying amount reported in the consolidated balance sheet for estimated third-party payor settlements approximates its fair value.

The Medical Center's long-term debt obligations and mortgage notes are reported in the accompanying consolidated balance sheet at principal value, less unamortized discount or premium, which totaled approximately \$667,777,000 and \$68,162,000, respectively, at September 30, 2012. The fair value of the long-term obligations and mortgage notes was \$683,946,000 and \$73,843,000, respectively at September 30, 2012. Such fair value was determined assuming that the carrying value of the variable rate debt approximated fair value. The fair value of fixed rate debt was determined using discounted cash flows at current interest rates. These methodologies are consistent with the classification of Level 2 in the fair value hierarchy.

The methods described above may produce a fair value that is not indicative of net realizable value or reflective of future fair values. Furthermore, while the Medical Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

16. Functional Expenses

The Medical Center is a multifaceted pediatric patient care provider dedicated to the improvement of the quality of life for children and their families. In its leadership role in pediatric medicine, the Medical Center focuses its efforts in three major areas: patient care, research, and medical education. Expenses related to providing these services are estimated for the year ended September 30, 2012 as follows (in thousands):

Patient care	\$ 1,271,232
Research	363,422
Medical education	43,905
Total expenses	<u>\$ 1,678,559</u>

17. Medical Resident Tax Refund

In March 2010, the IRS announced that, for periods ending before April 1, 2005, medical residents would be eligible for the student exception of Federal Insurance Contributions Act (FICA) taxes. Under the student exception, FICA taxes do not apply to wages for services performed by students employed by a school, college or university where the student is pursuing a course of study. As a result, the IRS will allow refunds for institutions that file timely FICA refund claims and provide certain information to meet the requirements of perfection, established by the IRS, for their claims applicable to periods prior to April 1, 2005. Institutions are potentially eligible for medical resident FICA refunds for both the employer and employee portions of FICA taxes paid, plus statutory interest.

At September 30, 2012, the Medical Center has recorded a receivable of approximately \$7,100,000, included in other noncurrent assets, and a liability of approximately \$3,600,000, included in other noncurrent liabilities, related to the refunds to be collected, including refunds to be collected on behalf of, and therefore to be remitted to, the medical residents and related entities. The Medical Center has established these estimates based on information presently available; the estimates are subject to change as the IRS adjudicates the claims.

18. Subsequent Events

Subsequent events have been evaluated for potential recognition in the financial statements through January 23, 2013, which is the date the consolidated financial statements were issued. No subsequent events have occurred that require disclosure in or adjustment to the consolidated financial statements.

Section II – OMB Circular A-133
Audit of Federal Awards

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*

Management and the Board of Trustees
Children's Medical Center and Subsidiaries

We have audited the consolidated financial statements of Children's Medical Center and Subsidiaries (the Medical Center) as of and for the year ended September 30, 2012, and have issued our report thereon dated January 23, 2013. Our report was modified to include a reference to other auditors and changes in accounting principles. 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. The financial statements of the P.O. and the Foundations were not performed in accordance with *Government Auditing Standards*.

Internal control over financial reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 the Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees, the Audit Committee, 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

January 23, 2013

Report of Independent Auditors on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance With OMB Circular A-133

Management and the Board of Trustees
Children's Medical Center and Subsidiaries

Compliance

We have audited Children's Medical Center's and Subsidiaries (the Medical Center) compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the Medical Center's major federal program for the year ended September 30, 2012. The Medical Center'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 the Medical Center's management. Our responsibility is to express an opinion on the Medical Center's compliance based on our audit.

The Medical Center's consolidated financial statements include the operations of Immune Disease Institute (IDI), which expended \$20,798,070 in federal awards, which is not included in the schedule of expenditures of federal awards for the year ended September 30, 2012. Our audit, described below, did not include the operations of IDI because the Medical Center engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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 the Medical Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Medical Center's compliance with those requirements.

In our opinion, the Medical Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2012. 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 items 2012-1 and 2012-2.

Internal Control Over Compliance

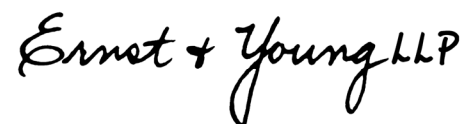
The management of the Medical Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Medical Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over compliance.

A deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

This report is intended solely for the information and use of management, the Board of Trustees, Audit Committee, 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.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

June 27, 2013

Children's Medical Center and Subsidiaries

Schedule of Expenditures of Federal Awards

For the year ended September 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Federal Expenditures	
MAJOR PROGRAM:			
<u>Research and Development Cluster</u>			
Direct Programs:			
Department of Health and Human Services/Public Health Service:			
Innovations in Applied Public Health Research	93.061	\$ 320	
Centers for Genomics and Public Health	93.063	-	
Food and Drug Administration Research	93.103	1,100,751	
Maternal and Child Health Fed'l Consolidated Programs	93.110	1,601,145	
Environmental Health	93.113	754,811	
Oral Diseases and Disorders Research	93.121	1,642,762	
Emergency Medical Services for Children	93.127	29,394	
Human Genome Research	93.172	143,194	
Research Related to Deafness and Communication Disorders	93.173	1,493,238	
National Research Service Awards in Primary Care Medicine	93.186	54,113	
Research and Training in Complementary and Alternative Medicine	93.213	(955)	
National Research Service Awards Health Services Research Training	93.225	265,396	
Research on Healthcare Costs, Quality and Outcomes	93.226	1,206,834	
Mental Health Research Grants	93.242	3,878,786	
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	410,600	
Poison Control Support and Enhancement Grant Program	93.253	566,481	
Alcohol Research Programs	93.273	146,168	
Drug Abuse and Addiction Research Programs	93.279	725,986	
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	539,503	
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	999,997	
Minority Health and Health Disparities Research	93.307	1,818,037	
ARRA-Trans-NIH Research Support	93.310	2,321,069	
Nursing Research	93.361	(-)	
National Center for Research Resources	93.389	(27,004)	
Cancer Cause and Prevention Research	93.393	994,197	
Cancer Treatment Research	93.395	713,987	
Cancer Biology Research	93.396	4,416,730	
Cancer Research Manpower	93.398	797,226	
Head Start	93.600	3,567,137	
University Centers for Excellence in Developmental Disabilities Education, Research and Service	93.632	719,196	
ARRA - Trans-NIH Recovery Act Research Support	93.701	6,315,370	
ARRA - Recovery Act - Comparative Effectiveness Research - AHRQ	93.715	324,171	
ARRA - Accelerating Adoption of Comparative Effectiveness Research (CER)	93.726	1,132,250	
Cardiovascular Diseases Research	93.837	11,622,424	
Lung Diseases Research	93.838	3,813,421	
Blood Diseases and Resources Research	93.839	10,983,776	
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	3,289,562	
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	16,021,323	
Clinical Research Related to Neurological Disorders	93.853	11,449,367	
Allergy, Immunology and Transplantation Research	93.855	13,431,464	
Microbiology and Infectious Diseases Research	93.856	2,079,021	
Biomedical Research and Research Training	93.859	3,711,067	
Child Health and Human Development Extramural Research	93.865	10,266,668	
Aging Research	93.866	114,180	
Vision Research	93.867	5,866,870	
Medical Library Assistance	93.879	2,289,035	
Grants for Training in Primary Care Medicine and Dentistry	93.884	279,919	
Specially Selected Health Projects	93.888	21	
International Research and Research Training	93.989	311,559	
Adolescent Family Life - Demonstration Projects	93.995	182,532	
DHHS/NIH Contracts	93.unknown	321,570	
Total Department of Health and Human Services		\$ 134,684,669	
Department of Defense:			
Military Medical Research and Development	12.420		4,691,808
Department of Energy:			
ARRA - Office of Science Financial Assistance Program	81.049		(10,200)
Department of Education:			
National Institute on Disability & Rehabilitation Research	84.133		129,478
Environmental Protection Agency:			
Science To Achieve Results (STAR) Research Program	66.509		224,224
National Science Foundation:			
Computer and Information Science and Engineering	47.070	224,482	
Social, Behavioral, and Economic Sciences	47.075	248,000	
ARRA - Trans-NSF Recovery Act Research Support	47.082	1,186,552	
Total National Science Foundation			1,659,034
Total Direct Programs		\$ 141,379,013	

Children's Medical Center and Subsidiaries

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-through Grantor/Program Title		Federal CFDA Number	Federal Expenditures	
Pass-Through Programs (by Prime Recipient):				
Abiomed, Inc.:				
ARRA - Trans-NIH Recovery Act Research Support	4R44HL99192 2	93.701	\$	8,283
Abt Associates:	GS-10F-0086K, GS10F0086K	Contracts		336,211
America's Health Insurance Plans, Inc:	200-2002-00732	Contracts		44,029
Association of University Centers on Disabilities:	HSH240200865005C	Contracts		49,098
Baylor College of Medicine:				
Cancer Treatment Research	5R01CA132899 2	93.395	9,792	
Blood Diseases and Resources Research	5R01HL95647 4, 7R01HL95647 3,			
Total Baylor College of Medicine	5U54HL081007-05	93.839	<u>29,514</u>	39,306
Berlin Heart, Inc.:				
Food and Drug Administration Research	5R01FDA003557	93.103		10,073
Beth Israel Deaconess Medical Center Inc.:				
Military Medical Research and Development	W81XWH-10-1-0141	12.420	(52)	
Research and Training in Complementary and Alternative Medicine	7T32AT5113	93.213	8,150	
Cancer Detection and Diagnosis Research	5R01CA1382113	93.394	768	
ARRA-Trans-NIH Recovery Act Research Support	5R01AI847944, 5RC1HL997492	93.701	354,368	
Cardiovascular Diseases Research	5R21HL970612	93.837	67,910	
Blood Diseases and Resources Research	5K08HL895095	93.839	89,316	
Arthritis, Musculoskeletal and Skin Diseases Research	5R01AR608502, 5R21AR578802	93.846	235,678	
Diabetes, Digestive, and Kidney Diseases Extramural Research	5U19DK806525	93.847	115,288	
Allergy, Immunology and Transplantation Research	5P01AI762103, 5R01AI3769118,			
Total Beth Israel Deaconess Medical Center Inc.	5P01AI762104	93.855	<u>1,142,510</u>	2,013,936
Boston Biomedical Research Institute:				
Child Health and Human Development Extramural Research	1U54HD060848	93.865		214,879
Boston Medical Center/BCH Healthy Start Initiative:				
Mental Health Research Grants	1R01MH91871 3	93.242	57,380	
Drug Abuse and Addiction Research Programs	3R01DA250685S1	93.279	16,977	
Diabetes, Digestive, and Kidney Diseases Extramural Research	5P30DK46200 19	93.847	4,401	
Extramural Research Programs in the Neurosciences and Neurological Disorders	2U01NS400696A2	93.853	<u>497,324</u>	576,082
Boston University/BU Medical :				
Oral Diseases and Disorders Research	5R01DE14437 6	93.121	(15,794)	
Research Related to Deafness and Communication Disorders	3R01DC10290 3S1, 5R01DC101290 4	93.173	461,598	
Mental Health Research Grants	5R01MH82861 3	93.242	2,372	
Arthritis, Musculoskeletal and Skin Diseases Research	5U01AR057929 02	93.846	<u>18,501</u>	466,677
Brigham & Women's Hospital:				
ARRA - Office of Science Financial Assistance Program	DE-SC0005192	81.049	423	
Maternal and Child Health Fed'l Consolidated Programs	6-H30MC00037-13-03	93.110	27,152	
Environmental Health	5R01ES013744, 2R01ES15172 5A1	93.113	102,341	
Oral Diseases and Disorders Research	5RL1DE19021 5, 1R21DE21892 1A1	93.121	41,367	
Emergency Medical Services for Children	1 H34MC19346-01-00	93.127	(3,619)	
Human Genome Research	5U01HG4258 4, 1U01HG6500 1	93.172	249,611	
National Center on Sleep Disorders Research	5R01HL95472 4	93.233	48,777	
Drug Abuse and Addiction Research Programs	5R21DA25168 2	93.279	4,734	
Minority Health and Health Disparities Research	5R01MD6086 2	93.307	64,583	
Nursing Research	1R01ES20268 1	93.361	28,342	
National Center for Research Resources	8R01OD11141 2, U54LM8748	93.389	19,484	
Cancer Cause and Prevention Research	5R01CA108854 7	93.393	597	
Cancer Detection and Diagnosis Research	5U24CA144025 4	93.394	10,525	
Cancer Biology Research	5R01CA138231 4	93.396	52,737	
Cancer Centers Support Grants	5P50CA93683 9	93.397	247,163	
ARRA - Trans-NIH Recovery Act Research Support	3P50DK74030 5S1, 5R01HG4836 2,			
ARRA - Trans-NIH Recovery Act Loan Repayment Support	5R01LM10125 2	93.701	11,339	
Cardiovascular Diseases Research	U54LM8748	93.704	57,771	
Lung Diseases Research	5U10HL98102 4, 7U01HL83075 5,			
Blood Disease and Resources Research	5U10HL98115 4, 1P20HL101408 1	93.837	409,463	
Diabetes, Digestive, and Kidney Diseases Extramural Research	5R01HL80674 7, 5U10HL109172 2,			
Allergy, Immunology and Transplantation Research	5R01HL95606 0, 5R01HL92515 4	93.838	369,959	
Biomedical Research and Research Training	1U01HL108630 1, 5R01HL98082 3	93.839	133,788	
Child Health and Human Development Extramural Research	5R21DK81703 2	93.847	36,508	
Medical Library Assistance	5R01AI73964 5, 5U01AI63623 5,			
Brigham & Women's Hospital Contracts	1R01AI100114 1	93.855	48,432	
Total Brigham & Women's Hospital	5T32GM774834, 5U01GM926913,			
	5T32GM77483 4	93.859	201,569	
	5R01HD57368 4, 5R01HD49889 5,			
	5R01HD66963 2	93.865	291,057	
	5U54LM8748 9	93.879	426,711	
	EMW2008FP02566, 1 H34MC19346-01-			
	00	Contracts	<u>28,201</u>	2,909,015

Children's Medical Center and Subsidiaries

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-through Grantor/Program Title		Federal CFDA Number	Federal Expenditures	
Pass-Through Programs (by Prime Recipient) (continued):				
Broad Institute:				
Cardiovascular Diseases Research	6R01HL87679 3	93.837	\$ 22,990	
Diabetes, Digestive, and Kidney Diseases Extramural Research	5R01DK81923 4, 5R01DK75787 5 HHSN268200900055C, HHSN26820000029C	93.847	240,804	
Broad Institute Contracts		Contracts	<u>12,274</u>	
Total Broad Institute				276,068
Brown University:	HHSN275200800017C	Contracts		8,266
Cambridge Health Alliance:				
Biomedical Research and Research Training	5P60MD2261 5	93.859		894
Catalyst Institute, Inc.:				
Military Medical Research and Development	W81XWH-09-2-0001	12.420		29,450
Center for Biomedical Informatics:				
Medical Library Assistance	5G08LM9778 2	93.879		48,510
Chicago Resource Center:				
ARRA-Trans-NIH Recovery Act Research Support	3U54HD061221-06S1	93.701		8,103
Children's Hospital - Philadelphia:				
Research on Healthcare Costs, Quality and Outcomes	5R01HS79862 2	93.226	365,453	
National Center on Sleep Disorders Research	5R01HL5858513	93.233	(5,512)	
Cancer Cause and Prevention Research	5R01CA140198 01	93.393	(2,773)	
Cancer Treatment Research	U10CA98543, R01CA094194	93.395	30,445	
Vision Research	5U01EY17014 2	93.867	<u>70,859</u>	
Total Children's Hospital - Philadelphia				458,472
Children's Mercy Hospital:				
Diabetes, Digestive, and Kidney Diseases Extramural Research	5U01DK066143	93.847	28,248	
ARRA - Trans-NIH Recovery Act Research Support	5U01DK066143, 3U01DK66143 7S1	93.701	<u>51</u>	
Total Children's Mercy Hospital				28,299
Children's National Medical Center				
Emergency Medical Services for Children	5 MC61200	93.127		123,740
Children's Research Institute:				
Emergency Medical Services for Children	2U03MC00006-08-00	93.127	(207)	
Child Health and Human Development Extramural Research	5U54HD61221 9	93.865	<u>107,447</u>	
Total Children's Research Institute				107,240
Cincinnati Children's Hospital Medical Center:				
Food and Drug Administration_Research	5R01FD00371312 03	93.103	58,384	
Human Genome Research	1U01HG6828 1	93.172	<u>74,697</u>	
Total Cincinnati Children's Hospital Medical Center				133,081
Cleveland Clinic Lerner College of Medicine:				
Child Health and Human Development Extramural Research	5K12HD85027, 5K12HD85028, 7K12HD85026	93.865		190,043
Columbia University:				
Food and Drug Administration Research	HHSF223200810036C	93.103	18,710	
ARRA - Emergency Medical Services for Children	1S02MC19289-01-00	93.418	119	
Extramural Research Programs in the Neurosciences and Neurological Disorders	7R01NS50408 6	93.853	<u>955</u>	
Total Columbia University				19,784
Community Research Initiative of New England:				
AIDS Education and Training Centers	2H4AHA00050-09-00	93.145		(646)
Convence Periapproval Services, Inc:				
Computer and Information Science and Engineering	1136996	47.070		132,991
Crotched Mountain Foundation:				
Maternal and Child Health Fed'l Consolidated Programs	U39MCM18176-01-00	93.110		37,522
Dana-Farber Cancer Institute:				
Cancer Treatment Research	5P01CA6699615, 5P01CA142536 2, 5P01CA6848415, 5P01CA9262510	93.395	590,661	
Cancer Biology Research	5U01CA105423 9 5RC2HL101367 2, 5RC2HL101631 2, 5RC2HL101553 2	93.396	597,115	
ARRA - Trans-NIH Recovery Act Research Support	5RC2HL101553 2	93.701	70,630	
Cardiovascular Diseases Research	5R21HL89659 2	93.837	(233)	
Allergy, Immunology and Transplantation Research	5R01AI89955 2	93.855	265,118	
Microbiology and Infectious Diseases Research	5T32CA7008314	93.856	<u>34,931</u>	
Total Dana-Farber Cancer Institute				1,558,222
Dartmouth College:				
ARRA - Trans-NIH Recovery Act Research Support	5R01DA27414 2	93.701		(227)
Dartmouth Hitchcock Medical Center:				
Microbiology and Infectious Diseases Research	5U19AI19173 3	93.856		9,788

Children's Medical Center and Subsidiaries

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-through Grantor/Program Title		Federal CFDA Number	Federal Expenditures	
Pass-Through Programs (by Prime Recipient) (continued):				
Dossia Consortium Public Health Emergency Preparedness	INTF6208U05202313113	93.069	\$	244,049
Duke University:				
ARRA - Trans-NIH Recovery Act Research Support	5RC2AR58934 2	93.701	95,809	
Allergy, Immunology and Transplantation Research	1 AI100645 1, 5U19AI67854 8	93.855	237,995	
Microbiology and Infectious Diseases Research	5U19AI67854 7	93.856	380,772	
Duke University Contracts	N01-AR-2-2265	Contracts	<u>42,144</u>	
Total Duke University				756,720
Educational Development Center, Inc: Nursing Research	5R01NR928 5	93.361		4,449
Emmes Corporation: Emmes Corporation Contracts	HHS-N-260-2007-00001-C	Contracts		9,000
Emory University: Vision Research	5U01EY13272 9	93.867		11,270
Feinstein Institute for Medical Research: Diabetes, Digestive, and Kidney Diseases Extramural Research	1R56DK84993 1, 5R33DK70341 5	93.847		20,228
Fenway Community Health Center: Child Health and Human Development Extramural Research	0U01HD68040 2	93.865		5,330
Fujisawa Pharmaceutical Co: Maternal and Child Health Federal Consolidated Programs	U40MC00149	93.110		9,060
Fundacion Instituto Leloir: Blood Diseases and Resources Research	5R21TW8430 2	93.839		2
Group Health Cooperative: ARRA - Trans-NIH Recovery Act Research Support	5RC1CA146917 2	93.701		(661)
Harvard Clinical and Translational Science Center: National Center for Advancing Translational Sciences	8KL2 168 5, 8 170 5	93.350	94,237	
ARRA-Trans-NIH Recovery Act Research Support	5UL1RR025758, 3UL1RR025758	93.701	<u>6,392</u>	
Total Harvard Clinical and Translational Science Center				100,629
Harvard Center for AIDS Research: Allergy, Immunology, and Transplantation Research	5P30AI60354 9	93.855		2,922
Harvard Medical School:				
Military Medical Research and Development	W81XWH-09-2-0001	12.420	78,139	
Basic, Applied, and Advanced Research in Science and Engineering	W911NF-11-R-0011	12.630	4,682	
Human Genome Research	5P50HG5550 3	93.172	87,754	
Research and Training in Complementary and Alternative Medicine	5T32AT5112	93.213	61,834	
Mental Health Research Grants	1P50MH94267 1, 5P50MH94267 2	93.242	63,064	
Discovery and Applied Research for Technological Innovations to Improve Human Health	5R01GM82798 6	93.286	77,585	
National Center for Advancing Translational Sciences	261200800001E-38-0-12, 8 170 5, 8UL1TR000170 05	93.350	5,300	
National Center for Research Resources	0 RR25758 0, 1 UL1 RR025758, 5 UL1 RR025758	93.389	1,889,178	
Cancer Cause and Prevention Research	2R01GM5387416A2, 5R01CA113794 8	93.393	5,205	
Cancer Detection and Diagnosis Research	5U24CA143845 3	93.394	50,081	
ARRA - Trans-NIH Recovery Act Research Support	5RC2HG5639 3, 1RC4GM6319 1 ,	93.701	757,112	
ARRA - Strategic Health IT Advanced Research Projects (SHARP)	5R01HG4836 2, 5RC1HG5482 3 90TR0001-01	93.728	1,807,559	
Cardiovascular Diseases Research	5R01HL80494 6, 5U01HL098166, 5R01GM81578 4, 1U54HL117798 1	93.837	620,567	
Blood Diseases and Resources Research	5T32HL762325	93.839	78,724	
Arthritis, Musculoskeletal and Skin Diseases Research	5P01AR48564 9	93.846	517,173	
Extramural Research Programs in the Neurosciences and Neurological Disorders	5T32NS748411, 5T32NS748412 5R01AI91476 2, 5U54AI57159 9,	93.853	40,218	
Allergy, Immunology and Transplantation Research	5R01AI80324 4	93.855	327,050	
Aging Research	5T32AG22220	93.866	23,137	
Medical Library Assistance	3G08LM9778 2S1, 5T15LM709220S1	93.879	<u>10,944</u>	
Total Harvard Medical School				6,505,306
Harvard Pilgrim Health Care:				
Innovations in Applied Public Health Research	1P01HK000088	93.061	186,407	
Environmental Health	5R01ES16314 4	93.113	26,949	
Cardiovascular Diseases Research	5R01HL96905 2	93.837	75,059	
Allergy, Immunology and Transplantation Research	5R01AI66304 7	93.855	<u>73,754</u>	
Total Harvard Pilgrim Health Care				362,169

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Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-through Grantor/Program Title		Federal CFDA Number	Federal Expenditures	
Pass Through Programs (by Prime Recipient) (continued):				
Harvard School of Public Health:				
Environmental Health	5P30ES249, 5R01ES17285 3,	93.113	\$ 59,639	
NIEHS Superfund Hazardous Substances_Basic Research and Education	5R01ES14663 4	93.143	168,293	
Mental Health Research Grants	5P42ES16454 3	93.242	31,518	
Rapid Expansion of Antiretroviral Therapy Programs for HIV-Infected Persons in Selected Countries in Africa and the Caribbean Under the President's Emergency Plan for AIDS Relief	5R01MH87344 4			
Cancer Cause and Prevention Research	U51HA02522	93.266	(6,591)	
Cancer Research Manpower	1R03CA165070 1	93.393	11,061	
Cardiovascular Diseases Research	5T32CA938229	93.398	56,563	
Lung Diseases Research	5U01HD52102 8	93.837	8,291	
Allergy, Immunology and Transplantation Research	5R01HL84044 5	93.838	65,537	
	5U01HD52102 8, 5T32AI743320	93.855	83,336	
	5U01HD52102 7, 5R01HD57941 3,			
Child Health and Human Development Extramural Research	5R01HD48969 5, 5R01HD52461 5	93.865	<u>428,642</u>	906,289
Total Harvard School of Public Health				
Harvard Stem Cell Institute:				
Blood Diseases and Resources Research	5T32HL087735	93.839		35,886
Harvard University:				
ARRA - Trans-NIH Recovery Act Research Support	1U01DK72473 1, 3U01HD52102 6S3,			
Blood Diseases and Resources Research	5RC2CA148222 2	93.701	(25,859)	
Allergy, Immunology and Transplantation Research	7R01HL97794 2	93.839	(3,211)	
Total Harvard University	5P30AI60354 6	93.855	<u>23,322</u>	(5,748)
Hospital for Sick Children:				
Diabetes, Digestive, and Kidney Diseases Extramural Research	5R01HD48960 5	93.847		3,562
Immune Deficiency Foundation:				
Allergy, Immunology and Transplantation Research	5U24AI86037 3	93.855		52,545
Immune Disease Institute:				
ARRA - Trans-NIH Recovery Act Research Support	5RC1DK87348 2	93.701		(1,362)
Indiana University:				
Arthritis, Musculoskeletal and Skin Diseases Research	2R01AR53237 6A1	93.846		119,688
Infocitex:				
Military Medical Research and Development	W81XWH-11-C-0069, W81XWH-11-C-			
Extramural Research Programs in the Neurosciences and Neurological Disorders	0009, W81XWH-09-C-0078, W81XWH-	12.420	86,334	
Child Health and Human Development Extramural Research	09-C-0118	93.853	104,398	
Infocitex Contracts	5R44NS56628 3	93.865	2	
Total Infocitex	2R44HD49954 2	Contracts	<u>1,624</u>	192,358
	N10PC20083			
International Glutamate Tech Committee				
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	3U79SP014950	93.243		19,484
Johns Hopkins University/School of Medicine:				
Food and Drug Administration_Research	R01 FD003898	93.103	177,535	
Mental Health Research Grants	5P50HG3233 9, 5U01MH85270 4	93.242	28,941	
Advanced Nursing Education Grant Program	5U01AI68632 6	93.247	8,195	
ARRA-Trans-NIH Research Support	5R01ES17646 4	93.310	3,466	
Diabetes, Digestive, and Kidney Diseases Extramural Research	5U01DK67767 5, 5U01DK74082 7	93.847	(258)	
Allergy, Immunology and Transplantation Research	5U01AI83238 3, 1R34AI74928 1	93.855	<u>579,653</u>	797,532
Total Johns Hopkins University/School of Medicine				
Joslin Diabetes Center:				
ARRA - Trans-NIH Recovery Act Research Support	3P30DK3683623S2	93.701	(12,372)	
Diabetes, Digestive, and Kidney Diseases Extramural Research	5T32DK726034, 5T32DK726035	93.847	<u>62,783</u>	50,411
Total Joslin Diabetes Center				
JS Genetics:				
Child Health and Human Development Extramural Research	R44HD058387	93.865		102,716
Judge Baker Children's Center:				
Child Health and Human Development Extramural Research	5R01HD60986 2	93.865		84,202
Lewiston Public Schools:				
	SS/HS	Contracts		25,785
Loyola University:				
Cardiovascular Diseases Research	5R01HL5335315	93.837		9,581
Massachusetts Eye and Ear Infirmary:				
Vision Research	5K08EY19686 3	93.867		25,879

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Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-through Grantor/Program Title		Federal CFDA Number	Federal Expenditures	
Pass-Through Programs (by Prime Recipient) (continued):				
Massachusetts General Hospital:				
Military Medical Research and Development	W81XWH-09-2-0001	12.420	\$ 212,015	
Research and Training in Complementary and Alternative Medicine	1R21AT7530 1	93.213	5,853	
Mental Health Research Grants	5R01MH90326 3, 7 A168632 7	93.242	16,035	
Discovery and Applied Research for Technological Innovations to Improve Human Health	5R21EB8547 2, 5R21EB7718 3	93.286	46,250	
Cardiovascular Diseases Research	5R01HL77674 5, 5U01HL99997 2,			
Diabetes, Digestive, and Kidney Diseases Extramural Research	5U01HL100402 4, 1R01HL109506 1A1	93.837	549,817	
Extramural Research Programs in the Neurosciences and Neurological Disorders	2R01DK71041 7A1, 5T32DK775414	93.847	15,930	
Allergy, Immunology and Transplantation Research	5R01NS69696 2, 5R01NS71463 3	93.853	51,202	
Biomedical Research and Research Training	1U01AI87881 1A1, 5U01AI67693 4	93.855	34,033	
	5T32GM759235	93.859	53,164	
Child Health and Human Development Extramural Research	5R01HD55150 5, 5R01HD42908 9,			
Aging Research	1P01HD68250 1	93.865	274,899	
Total Massachusetts General Hospital	5P50AG513429	93.866	<u>18,842</u>	1,278,040
Massachusetts Institute of Technology:				
Basic and Applied Scientific Research	FA8750-11-2-009	12.300	75,294	
Allergy, Immunology and Transplantation Research	5R21AI88590 2	93.855	62,181	
Child Health and Human Development Extramural Research	5R01HD67312 2	93.865	298,325	
Medical Library Assistance	5R01LM9723 3	93.879	<u>33,583</u>	469,383
Mayo Clinic:				
Mental Health Research Grants	5R01MH76111 5	93.242	(14,293)	
ARRA - Strategic Health IT Advanced Research Projects (SHARP)	90TR000201	93.728	<u>370,878</u>	356,585
Total Mayo Clinic				
Medical College of Wisconsin:				
ARRA - Trans-NIH Recovery Act Research Support	1R01HD61312 1	93.701		663
Montana State University:				
Biomedical Research and Research Training	1R01GM084326	93.859		80,130
Mt. Sinai School of Medicine:				
ARRA - Trans-NIH Recovery Act Research Support	3U01AI63594 7S1	93.701		121,228
National Childhood Cancer Foundation:				
Cancer Treatment Research	2U10CA098543, 5U10CA98543 9,			
ARRA - Trans-NIH Recovery Act Research Support	5U01CA9745210	93.395	120,587	
Total National Childhood Cancer Foundation	3U10CA98543 7S6	93.701	<u>6,030</u>	126,617
National Jewish Medical and Research Center:				
	HHSN272201000020C	Contracts		1,205,056
Neuro Diagnostic Devices:				
Extramural Research Programs in the Neurosciences and Neurological Disorders	2R44NS67772 2	93.853		92,699
Neurodx Development:				
Child Health and Human Development Extramural Research	5R43HD65429 2	93.865		123,390
New England College of Optometry:				
Cancer Biology Research	5R01CA131426 6	93.396		40,555
New England Research Institutes, Inc.:				
Cardiovascular Diseases Research	5U01HL68270, 5U01HL98188,			
	2U10HL68270, 5U01HL72268	93.837	1,103,775	
Blood Diseases and Resources Research	5U01HL65238, 1U01HL65238,			
Total New England Research Institutes, Inc.	5U01HL72268, 5U01HL83721	93.839	<u>18,192</u>	1,121,967
New York University:				
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	U79SM060444	93.243		251,334
Northeastern University:				
Discovery and Applied Research for Technological Innovations to Improve Human Health	5R01EB9327 3	93.286		45,102
Ohio State University:				
Vision Research	1R01EY21553 1A1	93.867		3,466
Oregon Health and Science University:				
ARRA - Trans-NIH Recovery Act Research Support	1RC4HL104831 1	93.701		60,390
Oxygen Biotherapeutics, Inc.:				
Military Medical Research and Development	W81XWH-11-2-0122	12.420		235,043
Pennsylvania State University:				
Cardiovascular Diseases Research	5U10HL98115 3	93.837		11,981
Rand Corporation:				
Chronic Diseases: Research, Control, and Prevention	U19DP002664	93.068	443,808	
Research on Healthcare Costs, Quality and Outcomes	HHSM-500-2005-00028I	93.226	45,692	
Child Health and Human Development Extramural Research	5R01HD50150 5	93.865	25,811	
Rand Corporation Contracts	HHSM-500-2005-00028I	Contracts	<u>73,781</u>	589,092
Total Rand Corporation				
Research Foundation of State University of New York:				
Cardiovascular Diseases Research	5U01DK63385 4	93.837		(315)

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Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-through Grantor/Program Title		Federal CFDA Number	Federal Expenditures	
Pass-Through Programs (by Prime Recipient) (continued):				
Rhode Island Hospital:				
ARRA - Trans-NIH Recovery Act Research Support	3R01AR56834 1S1	93.701	\$ 117,177	
Arthritis, Musculoskeletal and Skin Diseases Research	7R01AR60829 3, 5R01AR56834 0	93.846	<u>112,955</u>	230,132
Total Rhode Island Hospital				
Robin Medical Inc.:				
Mental Health Research Grants	5R41MH86984 2, 2R42MH86984 3A1	93.242		41,603
Rockefeller University:				
Extramural Research Programs in the Neurosciences and Neurological Disorders	5R01NS72381 3	93.853		447,045
Rutgers University:				
ARRA-Trans-NIH Research Support	5R01GM96454 3	93.310	362,532	
Biomedical Research and Research Training	5R01GM88343 2	93.859	<u>206,374</u>	568,906
Total Rutgers University				
Seattle Children's Hospital:				
Extramural Research Programs in the Neurosciences and Neurological Disorders	5R01NS65818 2	93.853		23,107
Schepens Eye Research Institute				
Vision Research	5T32EY714513	93.867		3,145
Social Scientific Systems, Inc.:				
Mental Health Research Grants	UM1AI068632	93.242	38,853	
ARRA - Trans-NIH Recovery Act Research Support	3U01AI68632 4S1	93.701	2	
Social Scientific Systems, Inc Contracts	3U01AI68632 4S1	Contracts	<u>159,645</u>	198,500
Total Social Scientific Systems, Inc				
Spire Corporation:				
Diabetes, Digestive, and Kidney Diseases Extramural Research	2R44DC4899 2A2	93.847		23,480
St. Jude Children's Research Hospital:				
Cancer Treatment Research	5U01CA8145714	93.395	202,367	
Blood Diseases and Resources Research	5P01HL5374918	93.839	<u>61,823</u>	264,190
Total St. Jude Children's Research Hospital				
Stanford University Medical Center:				
Diabetes, Digestive, and Kidney Diseases Extramural Research	3U01DK85527 2S2	93.847		(524)
Sterling Point Research, LLC:				
Discovery and Applied Research for Technological Innovations to Improve Human Health	1R43EB14063 1	93.286		33,062
Stowers Institute for Medical Research:				
Biomedical Research and Research Training	5R01GM5996412	93.859		86,729
Tufts University:				
Oral Diseases and Disorders Research	5U01DE17788 5	93.121	5,454	
Cardiovascular Diseases Research	5R01HL106160 2	93.837	17,428	
Extramural Research Programs in the Neurosciences and Neurological Disorders	1R21NS77411 1	93.853	24,371	
Vision Research	5R21EY019253	93.867	<u>-</u>	47,253
Total Tufts University				
United Way of Mass Bay & Merrimack Valley:				
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	MYCHILD	93.243		(627)
University of Alabama:				
Military Medical Research and Development	W81XWH-05-1-0615	12.420	195,836	
Child Health and Human Development Extramural Research	5U54HD61222 9, 9U54HD61222 9	93.865	<u>151,618</u>	347,454
Total University of Alabama				
University of California, Davis Medical School:				
Research on Health care Costs, Quality and Outcomes	5R01HS19712 3	93.226	20,809	
Child Health and Human Development Extramural Research	5R01HD62417 3	93.865	<u>49,825</u>	70,634
University of California, San Diego:				
Mental Health Research Grants	5R01MH84794 3	93.242	40,073	
Cardiovascular Diseases Research	5R01HL69413 8	93.837	<u>3,597</u>	43,670
Total University of California, San Diego				
University of California, Santa Cruz:				
Environmental Health	5R01ES19222 2	93.113		32,162
University of California, San Francisco:				
ARRA - Trans-NIH Recovery Act Research Support	3U01NS53998 3S1, 1U01AI82973 1	93.701	47,139	
Extramural Research Programs in the Neurosciences and Neurological Disorders	5R01NS62820 3, 5U01NS53998 5,	93.853	243,334	
Allergy, Immunology and Transplantation Research	5U54NS65705 4	93.855	138,456	
Total Univ. of California, San Francisco	U54AI82973	93.855	<u>428,929</u>	428,929
University of Chicago:				
University of Chicago Contracts	B1N1 CETT	Contracts		8,006
University of Iowa:				
Blood Diseases and Resources Research	2P01HL4692516A1	93.839	29,101	
Arthritis, Musculoskeletal and Skin Diseases Research	5R01AR052113	93.846	<u>(2,894)</u>	26,207
Total University of Iowa				

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Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-through Grantor/Program Title		Federal CFDA Number	Federal Expenditures	
Pass Through Programs (by Prime Recipient) (continued):				
University of Kentucky Research Foundation: Allergy, Immunology and Transplantation Research	5R01AI68119 7	93.855	\$	(10,240)
University of Maryland: Cardiovascular Diseases Research	5U01HL99997 4	93.837		47,020
University of Massachusetts Worcester/Amherst/Boston: Maternal and Child Health Fed'l Consolidated Programs	5 MC18283 3 , MC03959	93.110	89,811	
Minority Health and Health Disparities Research	5P20MD2290 5	93.307	17,198	
Centers for Disease Control and Prevention Investigations and Technical Assistance	5U01DD000194	93.283	3,973	
Disabilities Prevention	5U27DD862 2	93.184	19,105	
Children's Health Insurance Program	0006133125, 0006133126	93.767	2,487	
Cardiovascular Diseases Research	1R21HL110208 1A1	93.837	<u>22,885</u>	155,459
Total Univ. of Massachusetts, Worcester				
University of Medicine & Dentistry of New Jersey: Allergy, Immunology and Transplantation Research	5R21AI72399 2	93.855		45,517
University of Miami: Drug Abuse and Addiction Research Programs	5U01DA1372012	93.279	26,472	
Nursing Research	5R01NR12885 2	93.361	<u>1,759</u>	28,231
Total Univ. of Miami				
University of Michigan: Environmental Health	5R01ES782111	93.113	3,825	
Emergency Medical Services for Children	1H34MC193530100, 2U03MC00003-11	93.127	8,770	
National Center for Research Resources	5UL1RR024986	93.389	(1,144)	
Cardiovascular Diseases Research	5R01HL97361 3	93.837	43,824	
Arthritis, Musculoskeletal and Skin Diseases Research	5U01AR52181 8	93.846	<u>86</u>	55,361
Total Univ. of Michigan				
University of Minnesota: Allergy, Immunology and Transplantation Research	5R01AI73685 5	93.855		75,401
University of Nebraska: Cancer Treatment Research	7U01CA9841310	93.395	50,267	
University of Nebraska Contracts	RIVUR DMSA	Contracts	<u>13,359</u>	63,626
Total Univ. of Nebraska				
University of New Hampshire: Maternal and Child Health Fed'l Consolidated Programs	H46MC24093-01-00, U22MC10980	93.110		16,628
University of North Carolina: Cancer Cause and Prevention Research	5R01CA132887 5	93.393	7,826	
Allergy, Immunology and Transplantation Research	5R21AI74775 2	93.855	<u>(4,492)</u>	3,334
University of Pennsylvania: Mental Health Research Grants	5R01MH95671 2	93.242	370,817	
Diabetes, Digestive, and Kidney Diseases Extramural Research	2U01DK82316 5	93.847	157,724	
Allergy, Immunology and Transplantation Research	5R01AI037691	93.855	<u>(640)</u>	527,901
Total University of Pennsylvania				
University of Pittsburgh: Mental Health Research Grants	5R01MH77770 5	93.242	243,457	
Cancer Biology Research	5R01CA127979 4	93.396	219	
Cardiovascular Diseases Research	5R01HL68816 8, 5R01HL89750 4	93.837	(13,143)	
Allergy, Immunology and Transplantation Research	5U01AI77867 5	93.855	211,909	
Biomedical Research and Research Training	5R01GM90187 4	93.859	214,322	
University of Pittsburgh Contracts	N01-AR-4-2273	Contracts	<u>(19)</u>	656,745
Total University of Pittsburgh				
University of South Florida: Cancer Treatment Research	5U10CA8192011	93.395		18,164
University of Southern California: Cancer Cause and Prevention Research	5U19CA148537 2	93.393		32,422
University of Texas at Austin: Cardiovascular Diseases Research	7R01HL89750 5, 7R01HL68816 8	93.837		188,131
University of Texas Southwestern Medical Center: Cardiovascular Diseases Research	5U01HL100401 4	93.837		185,510
University of Utah: Child Health and Human Development Extramural Research	5K12HD47347 9	93.865		105,358
University of Washington: Discovery and Applied Research for Technological Innovations to Improve Human Health	5R01EB1474 8	93.286		119,201
University of Wisconsin: Food and Drug Administration Research	R01FD003711	93.103	91,569	
Cancer Detection and Diagnosis Research	1R01CA166105 1	93.394	3,053	
Diabetes, Digestive, and Kidney Diseases Extramural Research	2R01DK72126 6A1	93.847	<u>20,021</u>	114,643
Total Univ. of Wisconsin				

Children's Medical Center and Subsidiaries

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-through Grantor/Program Title		Federal CFDA Number	Federal Expenditures	
Pass Through Programs (by Prime Recipient) (continued):				
Virginia Tech:	D12PC00337	Contracts	\$	81,814
Washington University:				
ARRA - Trans-NIH Recovery Act Research Support	3U01AI77810 2S1	93.701	711	
Lung Diseases Research	5R01HL92486 4	93.838	154,036	
Allergy, Immunology and Transplantation Research	5U01AI77810 5	93.855	<u>45,063</u>	
Total Washington University				199,810
Wayne State University:				
Alcohol Research Programs	1R21AA20332 1A1, 1R21AA20037 1A1	93.273	25,830	
Diabetes, Digestive, and Kidney Diseases Extramural Research	5U01DK74062 7	93.847	86,771	
Child Health and Human Development Extramural Research	5R01HD62477 2	93.865	<u>25,557</u>	
Total Wayne State University				138,158
Weill Medical College of Cornell University:				
Cancer Treatment Research	0R21CA154228 0	93.395	3,466	
Cancer Biology Research	5R01CA135417 3	93.396	231,612	
Allergy, Immunology and Transplantation Research	0R01AI96554 0	93.855	<u>1,386</u>	
Total Weill Medical College of Cornell University				236,464
Westat, Inc:	HHSN267200800001C	Contracts		1,209,029
Wildlife Conservation Society:	GHN-A-00-09-00010-00	Contracts		356,429
Winifred Masterson Burke Medical Research Institute				
Vision Research	1R01EY22409 1	93.867		2,400
Wyss Institute for Biologically Inspired Engineering				
Research and Technology Development	N66001-11-1-4180	12.910		188,529
Yale University:				
Biomedical Research and Research Training	5U01GM87719 4	93.859	39,320	
Child Health and Human Development Extramural Research	5K12HD85024	93.865	<u>47</u>	
Total Yale University				39,367
Total Pass-Through Programs:				<u><u>34,302,351</u></u>
Total Federal Research and Development Cluster Expenditures				<u><u>175,681,364</u></u>
OTHER PROGRAMS				
Programs (by Agency and Prime Recipient):				
Department of Health and Human Services:				
ACTION FOR BOSTON COMM DEVELOPMENT/ABCD:				
Head Start	01ch0212	93.600	59,809	
Family Planning_Services	FPHPA010203-38-00	93.217	<u>68,343</u>	
Total ACTION FOR BOSTON COMM DEVELOPMENT/ABCD				128,152
Boston Healthy Start Initiative:				
Healthy Start Initiative	FY11007470	93.926		121,064
Dimock Community Health Center				
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	B9684, B9685	93.153		163,683
Commonwealth of Massachusetts:				
Acquired Immunodeficiency Syndrome (AIDS) Activity	INTF4942MM3100119037	93.118	149,573	
Refugee and Entrant Assistance_State Administered Programs	MEDCONSULTANTHH40000069	93.566	36,530	
Child Abuse and Neglect State Grants	099211ChildrensHospi	93.669	54,671	
Children's Health Insurance Program	CT EHS 11EHSCHILDRENSHOSPLC	93.767	1,169,890	
National Bioterrorism Hospital Preparedness Program	INTF6207PP1W02515180	93.889	50,699	
Maternal and Child Health Services Block Grant to the States	INTF3054MM3801012016,			
Total Commonwealth of Massachusetts	INTF3109M04905812005	93.994	<u>613,298</u>	
Total Commonwealth of Massachusetts				2,074,661
Rhode Island Department of Health:				
Medical Assistance Program	3011729	93.778		233,801
Total Department of Health and Human Services:				2,487,550
Department of Education:				
Boston Public Health Commission				
Rehabilitation Services_Vocational Rehabilitation Grants to States	FY12009603, FY13011374	84.126		23,372
Department of Justice:				
Crime Victim Assistance	VOCA2012CHSP00000000	16.575		42,612
Total Other Program Expenditures:				<u><u>2,787,345</u></u>
TOTAL FEDERAL EXPENDITURES			\$	<u><u>178,468,709</u></u>

See accompanying notes.

Children's Medical Center and Subsidiaries

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2012

1. Basis of Accounting

The schedule of expenditures of federal awards for the year ended September 30, 2012 is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

2. Categorization of Expenditures

The categorization of expenditures by program included in the schedule of expenditures of federal awards is based upon the grant documents. Changes in the categorization of expenditures occur based upon revisions to the Catalog of Federal Domestic Assistance (CFDA), which are issued in June and December of each year. The schedule of expenditures of federal awards for the year ended September 30, 2012 reflects CFDA changes issued through June 2012.

3. Subrecipients

Certain funds are passed through to subgrantee organizations by the Medical Center. Of the federal expenditures presented in the schedule, the Medical Center provided \$26,307,982 of federal awards to subrecipients in the Research and Development Cluster as follows:

AIDS Project Los Angeles	\$ 238,010
Baylor College of Medicine	46,864
Beth Israel Deaconess Medical Center	621,710
Boston Public Health Commission	45,414
Boston Medical Center	616,431
Boston University	402,085
Brandeis University	89,400
Brigham & Women's Hospital	3,752,742
Brigham Young University	4,017
Broad Institute	1,298,328
California State University	96,035
Cambridge Health Alliance	628
Centre National de la Recherche Scientifique	26,507
Consejo Superior de Investigaciones Científicas	186,217
Charles Drew University	24,015
Child Health Corporation of America	14,900

Children's Medical Center and Subsidiaries

Notes to Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2012

3. Subrecipients (continued)

Children's Healthcare of Atlanta	\$ 35,471
Children's Hospital of Colorado	41,060
Children's Hospital Los Angeles	5,760
Children's Hospital of Philadelphia	169,245
Children's Memorial Hospital/Children's Hospital of Chicago	33,582
Cincinnati Children's Hospital Medical Center	279,432
Clemson University	216,507
Community Catalyst	37,450
Concurrent Technologies Corporation	5,500
D-Tree International	42,520
Dana Farber Cancer Institute	1,339,857
Dartmouth College	798,160
Diabetes Hands Foundation	7,000
Drexel University	169,717
Duke University	595,454
Fallon Clinic	35,346
Families First Parenting Program	1,500
Federation for Children with Special Needs	42,028
Fundatia Tulane	144,789
Georgia Institute of Technology	44,766
Greenwood Genetic Center	37,770
GSF Research Institute	45,850
Hadassah Medical Organization	28,800
Harvard Medical School	1,263,972
Harvard Pilgrim	32,207
Harvard School of Public Health	361,909
Harvard University	2,737,797
Healthcore, Inc.	70,791
The Henry M. Jackson Foundation for the Advancement of Military Medicine, Inc.	46,435
Hospital for Sick Children	2,592
Immune Disease Institute	13,061
Indiana University	76,892

Children's Medical Center and Subsidiaries

Notes to Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2012

3. Subrecipients (continued)

Integris Baptist Regional Health Center - update spelling	\$	161,031
Johns Hopkins University		195,603
Joslin Diabetes Center, Inc.		29,690
Kaiser Permanente		68,046
Louisiana State University Health Sciences Center		21,478
Loyola University of Chicago		57,346
Maine Medical Center		8,640
Massachusetts Eye & Ear Infirmary		61,878
Massachusetts General Hospital		492,671
Massachusetts Health Quality Partners		600,430
Massachusetts Institute of Technology		129,883
Mayo Clinic		138,829
McLean Hospital		92,033
Microfabrica, Inc.		100,000
Muhimbili University of Health and Allied Sciences		10,000
National Initiative for Children's Healthcare Quality, Inc.		341,185
Nationwide Children's Hospital		71,151
Neuropsychiatric Research Institute		11,989
New England Research Institutes		166,160
New York University		111,800
Northeastern University		57,101
Novartis Vaccines and Diagnostics, Inc		68,282
Oregon Health and Science University		29,277
Pacer Center		18,879
Philips Healthcare		254,919
Rand Corporation		513,264
Recombinant Data Corp.		115,063
Rhode Island Hospital		327,472
Rosalind Franklin University of Medicine & Science		117,296
Seattle Children's Hospital		106,715
Smith College		40,635
Stanford University		90,052
Sunnybrook Research Institute		76,610
The Charles Stark Draper Lab Inc		318
The Pennsylvania State University		5,000
The Regents of the University of Minnesota		32,022

Children's Medical Center and Subsidiaries

Notes to Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2012

3. Subrecipients (continued)

The Scripps Research Institute	\$ 83,369
Tufts New England Medical Center	4,128
Tufts University	(3,774)
Tulane University	61,964
University College London	68,730
University of Alabama at Birmingham	40,215
University of Brescia	88,214
University of Bristol	30,151
University of California - Los Angeles	200,993
University of California Regents - San Francisco	280,580
University of California, San Diego	140,604
University of Colorado	589,259
University of Florida	54,467
University of Hawaii	8,147
University of Iowa	418,881
University of Maryland	106,297
University of Massachusetts	872,414
University of Massachusetts Medical School	254,785
University of Miami	5,477
University of Michigan	114,720
University of North Carolina	191,961
University of Pennsylvania	523,904
University of Pittsburgh	142,570
University of Rochester	1,203
University of Southern California	4,440
University of Stellenbosch	50,070
University of Utah	99,295
University of Vermont	1,103
University of Virginia	9,412
UT Southwestern Medical Center	8,876
Vanderbilt University Medical Center	59,878
Washington University	122,653
Whitehead Institute	594,489
Worcester Polytechnical Institute	129,238
Grand Total	<u>\$ 26,307,982</u>

See accompanying notes.

Children's Medical Center and Subsidiaries

Schedule of Findings and Questioned Costs

Year Ended September 30, 2012

Part I – Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued: Unqualified, with reference to other auditors and modification for change in accounting principle

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified _____ 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 _____ Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? X Yes ___ No

Children's Medical Center and Subsidiaries

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2012

Part I – Summary of Auditor's Results (continued)

Federal Awards Section (continued)

Identification of major program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
Various	Research and Development Cluster

Dollar threshold used to distinguish between
Type A and Type B programs:

\$3,000,000

Auditee qualified as low-risk auditee?

X Yes ___ No

Part II – Financial Statements 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 a Circular A-133 audit.

There are no matters required to be reported for the year ended September 30, 2012.

Children’s Medical Center and Subsidiaries

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2012

Part III –Federal Award Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by 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.

<u>Finding 2012-01</u>	<u>Allowable Costs</u>						
<table border="0" style="width: 100%;"> <tr> <td style="width: 20%;"><u>CFDA No.</u></td> <td style="width: 30%;"><u>Award No./Award Yr</u></td> <td style="width: 50%;"><u>Grant Name</u></td> </tr> <tr> <td>CFDA No. 93.103</td> <td>HHSF223200810036C</td> <td>Food and Drug Administration Research</td> </tr> </table>	<u>CFDA No.</u>	<u>Award No./Award Yr</u>	<u>Grant Name</u>	CFDA No. 93.103	HHSF223200810036C	Food and Drug Administration Research	
<u>CFDA No.</u>	<u>Award No./Award Yr</u>	<u>Grant Name</u>					
CFDA No. 93.103	HHSF223200810036C	Food and Drug Administration Research					
Criteria or Specific Requirement	Department of Health and Human Services Appendix E of Title 45 Code of Federal Regulations, Part 74 Section IX A Paragraph 7c states, “Charges for salaries and wages of individuals other than members of the professional staff will be supported by daily time and attendance and payroll distribution records. For members of the professional staff, current and reasonable estimates of the percentage distribution of their total effort may be used as support in the absence of actual time records. In order to qualify as current and reasonable, estimates must be made no later than one month after the month in which the services were performed.”						
Condition	Of 85 effort reports tested, 1 was not signed and dated within one month of the actual activity. However, all effort reports selected for testing were signed prior to when the audit work began.						
Questioned Costs	\$752						
Context	There were \$752 known questioned costs out of a total sample population of \$116,412.						
Effect	Untimely effort reporting increases the likelihood of inaccuracies in reporting actual effort.						
Cause	While the Medical Center has implemented a process to routinely monitor the timeliness of effort reporting, there continues to be an opportunity to further improve compliance. We note that, as a response to the prior year finding related to time and effort reporting, the Medical Center planned to implement an initiative to improve effort certification beginning in April 2012; the late effort report we identified for fiscal year 2012 related to November 2011, prior to the enactment of this initiative.						

Children’s Medical Center and Subsidiaries

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2012

Part III – Schedule of Federal Award Findings and Questioned Costs (continued)

Finding 2012-01

Allowable Costs

<u>CFDA No.</u>	<u>Award No./Award Yr</u>	<u>Grant Name</u>
CFDA No. 93.103	HHSF223200810036C	Food and Drug Administration Research

Recommendation

We recommend the Medical Center continue to focus on monitoring of time and effort reporting compliance and reinforce the need to submit all required time and effort reports timely.

Views of Responsible Officials
and Planned Corrective Actions

We have been closely monitoring compliance with time and effort reporting over the past three years and instituted a series of corrective actions. Our internal reporting indicates that of the 15,096 (approximately 1,250 per month) reports generated in FY2012, 100% have been certified. While we occasionally encounter isolated incidents in which faculty certify outside of the thirty day window, we have experienced a decrease in these audit findings from 12.5% in FY2011 (15 reports out of 120 sampled were late) to 1% in FY2012 (1 report out of 85 was late). The finding cited here represents an incident in which a research study coordinator worked 25% of her time on this FDA study in November 2011 and signed the report on January 12, 2012. Regulations state that she should have signed the report by December 30, 2011. A review indicates that this employee had signed all previous effort reports on time and has continued to do so since this incident. In response to this finding, we will continue to educate faculty, program directors and administrators about time and effort reporting requirements and continue the early warning notification system that we implemented in April 2012 in which each program director is provided with a list of employees who have ten days remaining to certify and remain within the mandated thirty day window.

Children's Medical Center and Subsidiaries

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2012

Part III – Schedule of Federal Award Findings and Questioned Costs (continued)

<u>Finding 2012-02</u>	<u>Procurement</u>								
<table border="0" style="width: 100%;"> <tr> <td style="width: 30%;"><u>CFDA No.</u></td> <td><u>Award No./Award Yr.</u></td> </tr> <tr> <td>CFDA No. 93.853</td> <td>5R01NS66973-2</td> </tr> <tr> <td>CFDA No.93.846</td> <td>5R01AR54099-6</td> </tr> <tr> <td>CFDA No.93.226</td> <td>5U18HS20513-4</td> </tr> </table>	<u>CFDA No.</u>	<u>Award No./Award Yr.</u>	CFDA No. 93.853	5R01NS66973-2	CFDA No.93.846	5R01AR54099-6	CFDA No.93.226	5U18HS20513-4	<p><u>Grant Name</u> Extramural Research Programs in the Neurosciences and Neurological Disorders</p> <p>Arthritis, Musculoskeletal and Skin Diseases Research Research on Healthcare Costs, Quality and Outcomes</p>
<u>CFDA No.</u>	<u>Award No./Award Yr.</u>								
CFDA No. 93.853	5R01NS66973-2								
CFDA No.93.846	5R01AR54099-6								
CFDA No.93.226	5U18HS20513-4								
Criteria or Specific Requirement	<p>In accordance with Section 44 of OMB Circular A-110, the Medical Center has established written procurement procedures. Under Section 46 of OMB Circular A-110, purchases of goods or services in excess of the small purchase threshold of \$25,000 are required to include documentation of the basis of contractor selection, justification for the lack of competition when competitive bids or offers are not obtained and the basis for the cost or price. In addition, under section 44(e) of OMB Circular A-110, approval of the awarding agency is required when procurement in excess of \$25,000 is awarded without competition.</p>								
Condition	<p>We identified two purchases from a sample of 21 procurement transactions, which were for allowable goods or services that were authorized and approved by the department; however, the original sole source justification documentation at the time of purchase could not be located. The sole source justification form provided for the audit was signed after the transaction was complete.</p>								
Questioned Costs	\$74,156								
Context	<p>There were known questioned costs of \$74,156 out of a total sample population of \$999,595.</p>								
Effect	<p>When competitive bids are not obtained for purchases exceeding \$25,000, federal requirements mandate that a sole source justification form be completed and signed in a timely fashion.</p>								

Children’s Medical Center and Subsidiaries

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2012

Part III – Schedule of Federal Award Findings and Questioned Costs (continued)

<u>Finding 2012-02</u>	<u>Procurement</u>
Cause	The Medical Center’s established procurement policy complies with federal requirements, but the sole source justification form was not kept in the vendor file prior to the transaction being initiated.
Recommendation	We recommend that the Medical Center enforce its policy requiring that, for purchases of greater than \$25,000 where competitive bids are not obtained, sole source justification forms be properly completed and attached to the relevant purchase order before the purchase is initiated.
Views of Responsible Officials and Planned Corrective Actions	Management will take several steps to ensure that the Purchasing policy is followed. The employee responsible has been counseled, and all buyers are receiving additional training to verify that they understand and will follow the policy. Additionally, the Purchasing department is implementing a new audit process to verify that POs requiring competitive bids or sole source justifications have the appropriate documentation. A selection of purchase orders will be reviewed on a periodic basis, with verification performed and documentation kept on file to ensure that compliance to policy is maintained.

Children's Medical Center and Subsidiaries

Summary Schedule of Prior Audit Findings

Year Ended September 30, 2012

2011-01 Allowable Costs – Not Resolved

See finding 2012-01 for an update to management's response.

2011-02 Reporting - Resolved

2010-01 Allowable Costs – Not Resolved

See finding 2012-01 for an update to management's response.

2010-02 Equipment - Resolved

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