

The Brigham and Women's Hospital, Inc.

**Report on Federal Awards in
Accordance with OMB Circular A-133
September 30, 2007
EIN 042312909**

The Brigham and Women's Hospital, Inc.
Report on Federal Awards in Accordance with OMB Circular A-133
Index
September 30, 2007

	Page(s)
Part I - Financial Statements	
Report of Independent Auditors	1
Financial Statements and Notes to Financial Statements	2-28
Schedule of Expenditures of Federal Awards and Notes to Schedule of Expenditures of Federal Awards	29-40
Part II - Reports on Compliance and Internal Controls	
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	41-42
Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	43-44
Part III - Findings	
Schedule of Findings and Questioned Costs.....	45
Summary Schedule of the Status of Prior Audit Findings.....	46-48

Part I
Financial Statements

Report of Independent Auditors

To the Board of Trustees of
The Brigham and Women's Hospital, Inc.

In our opinion, the accompanying balance sheets and the related statements of operations, changes in net assets and cash flows present fairly, in all material respects, the financial position of The Brigham and Women's Hospital, Inc. at September 30, 2007 and 2006, and the results of its operations, its changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of The Brigham and Women's Hospital, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2007 on our consideration of The Brigham and Women's Hospital, Inc.'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 for the year ended September 30, 2007. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2007 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



December 20, 2007

The Brigham and Women's Hospital, Inc.
Balance Sheets
September 30, 2007 and 2006

<i>(dollars in thousands)</i>	2007	2006
Assets		
Current assets		
Cash and equivalents	\$ 62,685	\$ 24,023
Current portion of investments limited as to use	72,816	57,975
Patient accounts receivable, net of allowance for bad debts 2007 - \$10,984; 2006 - \$9,219	171,317	151,504
Research grants receivable	55,979	46,972
Other current assets	58,177	54,985
Receivable for settlements with third-party payers	<u>2,774</u>	<u>5,020</u>
Total current assets	423,748	340,479
Investments limited as to use, less current portion	19,575	17,863
Long-term investments	149,950	139,465
Pledges receivable, net and contributions receivable from trusts, less current portion	49,632	36,607
Property and equipment, net	788,880	651,634
Other assets	<u>83,130</u>	<u>23,696</u>
Total assets	<u>\$ 1,514,915</u>	<u>\$ 1,209,744</u>
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term obligations	\$ 20,871	\$ 29,372
Accounts payable and accrued expenses	47,520	46,937
Accrued compensation and benefits	81,835	74,887
Current portion of accrual for settlements with third-party payers	5,069	1,205
Unexpended funds on research grants	62,768	52,091
Due to affiliates	<u>39,859</u>	<u>29,544</u>
Total current liabilities	257,922	234,036
Other liabilities		
Accrual for settlements with third-party payers, less current portion	11,898	13,043
Accrued professional liability	13,186	13,692
Accrued employee benefits	17,950	13,531
Accrued other	<u>2,069</u>	<u>1,160</u>
	45,103	41,426
Long-term obligations, less current portion	<u>484,825</u>	<u>440,276</u>
Total liabilities	<u>787,850</u>	<u>715,738</u>
Commitments and contingencies		
Net assets		
Unrestricted	488,667	298,817
Temporarily restricted	199,755	161,520
Permanently restricted	<u>38,643</u>	<u>33,669</u>
Total net assets	727,065	494,006
Total liabilities and net assets	<u>\$ 1,514,915</u>	<u>\$ 1,209,744</u>

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

The Brigham and Women's Hospital, Inc.
Statements of Operations
Years Ended September 30, 2007 and 2006

<i>(dollars in thousands)</i>	2007	2006
Operating revenue		
Net patient service revenue	\$ 1,262,777	\$ 1,167,498
Direct academic and research revenue	329,677	332,145
Indirect academic and research revenue	106,236	103,076
Other revenue	35,019	37,259
Total operating revenue	<u>1,733,709</u>	<u>1,639,978</u>
Operating expenses		
Employee compensation and benefits	658,467	609,892
Supplies and other expenses	557,608	516,779
Direct academic and research expenses	329,677	332,145
Depreciation and amortization	76,412	79,357
Provision for bad debts	21,520	15,726
Interest	19,252	19,493
Total operating expenses	<u>1,662,936</u>	<u>1,573,392</u>
Income from operations	<u>70,773</u>	<u>66,586</u>
Nonoperating gains (expenses)		
Income from investments	3,983	1,484
Gifts and other	2	-
Total nonoperating gains, net	<u>3,985</u>	<u>1,484</u>
Excess of revenues over expenses	74,758	68,070
Other changes in net assets		
Funds utilized for property and equipment	7,628	7,257
Transfers from (to) affiliates, net	46,538	(429,901)
Other	1,187	-
Change in funded status of defined benefit plans	59,739	-
Cumulative effect of accounting changes	-	45,359
Increase (decrease) in unrestricted net assets	<u>\$ 189,850</u>	<u>\$ (309,215)</u>

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

The Brigham and Women's Hospital, Inc.
Statements of Changes in Net Assets
Years Ended September 30, 2007 and 2006

<i>(dollars in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at October 1, 2005	<u>\$ 608,032</u>	<u>\$ 148,625</u>	<u>\$ 30,746</u>	<u>\$ 787,403</u>
Increases (decreases)				
Income from operations	66,586	-	-	66,586
Income from investments	1,484	7,354	-	8,838
Gifts and other	-	5,541	2,923	8,464
Funds utilized for property and equipment	7,257	-	-	7,257
Transfers to affiliates, net	(429,901)	-	-	(429,901)
Cumulative effect of accounting changes	45,359	-	-	45,359
Change in net assets	<u>(309,215)</u>	<u>12,895</u>	<u>2,923</u>	<u>(293,397)</u>
Net assets at September 30, 2006	298,817	161,520	33,669	494,006
Increases (decreases)				
Income from operations	70,773	-	-	70,773
Income from investments	3,983	18,676	-	22,659
Gifts and other	2	25,181	4,974	30,157
Funds utilized for property and equipment	7,628	-	-	7,628
Transfers from (to) affiliates, net	46,538	(5,622)	-	40,916
Other	1,187	-	-	1,187
Change in funded status of defined benefit plans	59,739	-	-	59,739
Change in net assets	<u>189,850</u>	<u>38,235</u>	<u>4,974</u>	<u>233,059</u>
Net assets at September 30, 2007	<u>\$ 488,667</u>	<u>\$ 199,755</u>	<u>\$ 38,643</u>	<u>\$ 727,065</u>

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

The Brigham and Women's Hospital, Inc.
Statements of Cash Flows
Years Ended September 30, 2007 and 2006

<i>(dollars in thousands)</i>	2007	2006
Cash flows from operating activities		
Change in net assets	\$ 233,059	\$ (293,397)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Cumulative effect of accounting changes	-	(45,359)
Change in funded status of defined benefit plans	(59,739)	-
Depreciation and amortization	76,412	79,357
Provision for bad debts	21,520	15,726
Net realized and change in unrealized appreciation on investments	(23,375)	(11,190)
Transfers (from) to affiliates, net	(40,916)	429,901
Restricted contributions	(21,174)	(19,106)
Increase (decrease) in cash resulting from a change in		
Patient accounts receivable	(41,333)	(33,436)
Research grants receivable	(9,007)	18,527
Other current assets	(975)	(5,338)
Pledges receivable and contributions receivable from trusts	(15,242)	10,104
Accounts payable and accrued expenses	583	(5,475)
Accrued compensation and benefits	6,948	6,419
Settlements with third-party payers	1,887	(11,224)
Unexpended funds on research grants	10,677	2,402
Accrued employee benefits and other	4,936	3,587
Due to affiliates	10,315	5,329
Net cash provided by operating activities	<u>154,576</u>	<u>146,827</u>
Cash flows from investing activities		
Purchase of property and equipment	(213,658)	(135,739)
Purchase of investments	(29,052)	(43,001)
Proceeds from sales of investments	25,389	28,928
Decrease in other assets	191	882
Net cash used for investing activities	<u>(217,130)</u>	<u>(148,930)</u>
Cash flows from financing activities		
Payments on long-term obligations	(22,116)	(29,248)
Proceeds from issuance of long-term debt	58,164	81,828
Transfers from (to) affiliates, net	43,994	(70,014)
Restricted contributions	21,174	19,106
Net cash provided by financing activities	<u>101,216</u>	<u>1,672</u>
Net increase (decrease) in cash and equivalents	38,662	(431)
Cash and equivalents at beginning of year	24,023	24,454
Cash and equivalents at end of year	<u>\$ 62,685</u>	<u>\$ 24,023</u>

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

The Brigham and Women's Hospital, Inc.

Notes to Financial Statements

September 30, 2007 and 2006

(dollars in thousands)

1. **Organization and Community Benefit Commitments**

The Brigham and Women's Hospital, Inc. (BWH) operates an acute-care general hospital established to provide healthcare services to patients primarily from the Greater Boston area as well as New England and beyond. In addition, BWH conducts research and provides education for physicians and other healthcare professionals. As such, operating revenue includes those generated from direct patient care and reimbursement of research and educational activities. The Brigham and Women's/Faulkner Hospitals, Inc. (BW/F) is the sole member of BWH, Faulkner Hospital, Inc. (FH), Brigham Community Practices, Inc. (BCP), Brigham and Women's Physicians Organization, Inc. (BWPO), Biosciences Research Foundation, Inc. (BRF) and other affiliates.

Partners HealthCare System, Inc. (PHS) is the sole member of BW/F, The Massachusetts General Hospital (MGH), The North Shore Medical Center, Inc. (NSMC), Newton-Wellesley Hospital (NWH), Partners Continuing Care, Inc. (PCC) and Partners International Medical Services, LLC (PIMS). PHS appoints the two physicians who are members of Partners Community HealthCare, Inc. (PCHI). PHS, together with all of its affiliates, is referred to as "Partners HealthCare."

BWH is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Community Benefit

BWH is committed to serving the health care needs of persons from diverse communities and makes a unique commitment to the neighboring residents of Jamaica Plain and Mission Hill. BWH also commits to meeting the needs of low-income pregnant women and their families from the communities of Roxbury and Dorchester. As such, BWH engages in several mission-related activities aimed at maintaining its tax-exempt status. These activities include supporting a broad-based community benefits program, operating essential clinical services, including an emergency room and outpatient clinics serving low-income patients, and providing free or discounted care, in conjunction with a clear charity care policy based on community needs.

The Massachusetts Attorney General's Community Benefits Guidelines require health maintenance organizations and nonprofit acute care hospitals to prepare annual reports documenting the status of their community benefit programs and initiatives. These annual reports serve the important purpose of providing the public with access to useful information about these programs and initiatives. BWH has a community benefit planning and service delivery structure and has filed its report separately with the Attorney General.

BWH's community benefit program also includes career and workforce development, encouraging students to pursue nursing and other clinical careers, asthma education services, and domestic violence intervention. In addition, several community health centers are licensed or affiliated with BWH, providing patient access to BWH and other Partners HealthCare hospitals. BWH invests in these health centers' infrastructure, programming and operation and also helps with relocation, renovation, and other capital requirements.

The Brigham and Women's Hospital, Inc.

Notes to Financial Statements

September 30, 2007 and 2006

(dollars in thousands)

Uncompensated Care

BWH provides care to all patients regardless of their ability to pay. The cost of providing that care is reflected in the statements of operations. The cost related to those patients, for which BWH receives either partial or no reimbursement for healthcare services provided, is summarized as follows:

State Programs

Uncompensated Care

Free care services are partially reimbursed to acute hospitals through the statewide Uncompensated Care Pool (UC Pool). A portion of the funding for the UC Pool is paid by hospitals through a statewide hospital assessment levied each year by the Massachusetts Legislature. All acute care hospitals in the state are assessed their share of this total statewide hospital assessment amount (\$160,000 in 2007 and 2006) based on each hospital's charges for private sector payers. BWH reports this assessment as a deduction from net patient service revenue.

Hospitals are reimbursed for free care under a prospective, tiered reimbursement system based on the State's projection of hospital free care costs adjusted for eligible services, coverage expansion and cost inflation. Hospitals with a high proportion of free care and government funding receive more favorable reimbursement, including higher inflation adjustments and minimum levels of payment. Community hospitals receive higher inflation adjustments as well. Funds remaining after the State meets the funding obligations for high free care hospitals are distributed pro rata to all other hospitals, including all Partners HealthCare's hospitals. In aggregate, BWH's share of uncompensated care funding covered 61% of the cost of free care provided in 2007 and 55% of the cost in 2006, excluding the assessment.

Effective October 1, 2007, the UC Pool became the Health Safety Net Trust Fund (HSNTF) under Chapter 58, the Massachusetts Health Care Reform Law. Chapter 58 maintains the same level of funding of the HSNTF by hospitals and private insurers, \$160,000 each. The State will determine overall funding for the HSNTF based on its projection of demand for free care and projections of enrollment of the free care population into Commonwealth Care, the State's subsidized health plan. Any shortfalls in HSNTF funding will be absorbed entirely by hospitals with each hospital's share of the shortfall proportionate to its size. In the aggregate, BWH's share of the statewide shortfall is estimated at 7%. Also effective on October 1 are further restrictions on both populations and services eligible for the HSNTF and significant changes in payment methodology as prospective payment is replaced with adjudication of claims based on Medicare rates of payment.

Medicaid

Medicaid is a means-tested health insurance program, jointly funded by state and federal governments. States administer the program and set rules for eligibility, benefits and provider payments within broad federal guidelines. The program provides health care coverage to low-income children and families, pregnant women, long-term unemployed adults, seniors and persons with disabilities. Eligibility is determined by a variety of factors, which include income relative to the federal poverty line, age and immigrant status, and assets.

Medicaid payments to BWH do not cover the cost of services provided. In aggregate, reimbursement from Medicaid covered 79% of the cost of services provided in 2007 and 77% of the cost in 2006.

The Brigham and Women's Hospital, Inc.
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

The Massachusetts Health Care Reform Law also mandated additional payments of \$90,000 per year to hospitals and physicians for the three-year period 2007 to 2009 to close the statewide gap between Medicaid payments and the cost of providing services. Of this amount, \$76,500 is designated for hospitals and \$13,500 for physicians. However, the State allocated a portion of the additional payments to fund existing rate adjustments, such as increases for case mix severity. As a result, net payment increases to hospitals were estimated to total less than \$76,500. BWH's share of this additional funding was \$4,469 in fiscal year 2007.

Federal Program

Medicare

Medicare is a federally sponsored health insurance program for people age 65 or older, under age 65 with certain disabilities, and any age with End-Stage Renal Disease. Over the past several years, Medicare payments to hospitals have not kept pace with inflation. Payments to physicians have seen little or no increases over the same timeframe. For BWH, declines in reimbursement have included a 15% decrease in payments for indirect medical education.

Consequently, Medicare payments to BWH also do not cover the cost of services provided. In aggregate, reimbursement from Medicare covered 81% of the cost of services provided in 2007 and 89% of the cost in 2006.

For Free Care, Medicaid and Medicare, the total cost of services provided by BWH exceeds the net reimbursement received under these programs by \$119,998 and \$89,704 for the years ended September 30, 2007 and 2006, respectively. The following summarizes, by program, the cost of services provided, net reimbursement and cost of services in excess of reimbursement for each year:

	Years Ended September 30,	
	2007	2006
Cost of services provided		
Free Care, including assessment payment to UC Pool of \$15,367 and \$15,325 in 2007 and 2006, respectively	\$ 41,663	\$ 47,081
Medicaid	124,400	107,621
Medicare	351,701	320,146
	<u>\$ 517,764</u>	<u>\$ 474,848</u>
Net reimbursement		
Free Care	16,079	17,311
Medicaid	98,370	83,426
Medicare	283,317	284,407
	<u>\$ 397,766</u>	<u>\$ 385,144</u>
Cost of services in excess of reimbursement		
Free Care	25,584	29,770
Medicaid	26,030	24,195
Medicare	68,384	35,739
	<u>\$ 119,998</u>	<u>\$ 89,704</u>

The Brigham and Women's Hospital, Inc.

Notes to Financial Statements

September 30, 2007 and 2006

(dollars in thousands)

Bad Debts

In addition to free care and inadequate funding from the Medicaid and Medicare programs, there are significant losses related to self-pay patients who fail to make payment for services rendered or insured patients who fail to remit co-payments and deductibles as required under the applicable health insurance arrangement. The provision for bad debts represents revenues for services provided that is deemed to be uncollectible. The estimated cost of providing these services was approximately \$7,661 and \$5,677 for 2007 and 2006, respectively.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. BWH follows the accounting policies and practices of PHS and these statements should be read in conjunction with the Partners HealthCare consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are made in the areas of patient accounts receivable, research grants receivable, investments, receivables and accruals for settlements with third-party payers, accrued professional liability, accrued compensation and employee benefits, and accrued other.

Fair Value of Financial Instruments

The fair value of financial instruments approximates the carrying amount reported in the balance sheets for cash and equivalents, investments, investments limited as to use, patient accounts receivable, pledges receivable, research grants receivable, contributions receivable, and accounts payable, except for long-term obligations which is disclosed in Note 7.

Cash and Equivalents

Cash and equivalents represent money market and highly liquid debt instruments with a maturity at the date of purchase of three months or less.

Investments

BWH holds investments which represent units in a partnership (Note 4) and are recorded on the equity method of accounting at fair value, with the change in net unrealized appreciation included in excess of revenues over expenses as a component of income from investments. Separately invested investments (marketable investments) are measured at fair value, generally based on quoted market prices, with the change in net unrealized appreciation excluded from excess of revenues over expenses.

Income from investments (including realized gains and losses, change in net unrealized appreciation in equity method investments, interest, dividends, and endowment income distributions) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Income from investments is reported net of investment related expenses.

The Brigham and Women's Hospital, Inc.

Notes to Financial Statements

September 30, 2007 and 2006

(dollars in thousands)

A write-down in the cost basis of securities is recorded when the decline in fair value of certain investments below cost has been judged to be other-than-temporary. Depending on any donor-imposed restrictions on the underlying investments, the amount of the write-down is reported as a realized loss in either temporarily restricted net assets or in excess of revenues over expenses as a component of income from investments, with no adjustment in the cost basis for subsequent recoveries in fair value.

Partners HealthCare has an endowment spending policy for pooled endowment funds. A fixed distribution rate for spending is determined each year which will come from either income and/or net accumulated gains in fair value.

Investments Limited as to Use

Investments limited as to use primarily include assets whose use is contractually limited by external parties and assets set aside by the Board of Trustees (or management) for identified purposes, over which the Board (or management) retains control and may, at its discretion, subsequently use for other purposes.

Patient Accounts Receivable

BWH receives payments for services rendered from federal and state agencies (under the Medicare and Medicaid programs), managed care payers, commercial insurance companies, and patients. Patient accounts receivable are reported net of contractual allowances and reserves for denials, uncompensated care, and doubtful accounts. The level of reserves is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in federal and state governmental and private employer health care coverage and other collection indicators.

Research Grants Receivable

BWH receives research funding from departments and agencies of the U.S. Government, industry and corporate sponsors, and other private sponsors. Research grants receivable include amounts due from these sponsors of externally funded research. The amounts have been billed or are billable to the sponsor, or in limited circumstances, represent accelerated spending in anticipation of future funding. Research grants receivable are reported net of reserves for uncollectible accounts.

Property and Equipment

Property and equipment is reported on the basis of cost less accumulated depreciation. Donated items, exclusive of transfers from related organizations, are recorded at fair value at the date of contribution. All research grants received for capital are recorded in the year of expenditure as a change in net assets. Property and equipment is reviewed for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Depreciation of property and equipment is calculated by use of the straight-line method at rates intended to depreciate the cost of assets over their estimated useful lives, which generally range from three to forty years. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized, net of any interest earned, as a component of the cost of acquiring those assets.

The Brigham and Women's Hospital, Inc.

Notes to Financial Statements

September 30, 2007 and 2006

(dollars in thousands)

Asset Retirement Obligations

Asset retirement obligations, reported in accrued other, are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. BWH records changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. BWH reduces these liabilities when the related obligations are settled.

Other Assets

Other assets consist of long-term receivables, investments in healthcare related limited partnerships and benefit assets for overfunded defined benefit plans. The carrying value of other assets is reviewed if the facts and circumstances suggest that it may be impaired.

Compensated Absences

In accordance with formal policies concerning vacation and other compensated absences, accruals of approximately \$41,616 and \$37,663 were recorded as of September 30, 2007 and 2006, respectively.

Unexpended Funds on Research Grants

Research grants received in advance of corresponding grant expenditures are accounted for as a direct addition to investments limited as to use and unexpended funds on research grants.

Self-Insurance Reserves

BWH is self-insured for employee healthcare, disability, workers' compensation and certain other employee benefits. These costs are accounted for on an accrual basis to include estimates of future payments for claims incurred.

Net Assets

Permanently restricted net assets include only the historical dollar amounts of gifts which are required by donors to be permanently retained. Temporarily restricted net assets include gifts, and income and gains on permanently restricted net assets which can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (capital projects, pledges to be paid in the future, life income funds) or by interpretations of law (gains available for appropriation but not appropriated in the current period).

Realized gains and losses are classified as unrestricted net assets unless they are restricted by the donor or law. Unless permanently restricted by the donor, realized gains and unrealized net appreciation on permanently restricted gifts are classified as temporarily restricted until appropriated for spending by BWH in accordance with policies established by Partners HealthCare and the Massachusetts Management of Institutional Funds Act. Net losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the fair value exceeds book value. Unrestricted net assets include all the remaining net assets of BWH. See Note 13 for further information on the composition of restricted net assets.

The Brigham and Women's Hospital, Inc.

Notes to Financial Statements

September 30, 2007 and 2006

(dollars in thousands)

Gifts and Grants

Unconditional promises to give cash and other assets to BWH are reported at fair value at the date the promise is received. Conditional promises to give are recognized when the conditions are substantially met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted gifts in the accompanying financial statements.

Gifts of long-lived assets with explicit restrictions that specify use of assets and gifts of cash or other assets that must be used to acquire long-lived assets are reported as additions to temporarily restricted net assets if the assets are not placed in service during the year.

Grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. BWH recognizes revenue associated with direct and indirect costs as direct costs are incurred. The recovery of indirect costs is based on predetermined rates for U.S. government grants and contracts and negotiated rates for other grants and contracts.

Statement of Operations

All activities of BWH deemed by management to be ongoing, major and central to the provision of healthcare services, training and research activities are reported as operating revenue and expenses. Other activities are deemed to be nonoperating and include unrestricted gifts (net of fund-raising expenses) and substantially all income from investments.

The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses include change in unrealized appreciation on marketable investments, transfers of assets to and from affiliates, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for acquisition of such assets) and change in funded status of defined benefit plans.

In September 2006, the Securities and Exchange Commission staff issued Staff Accounting Bulletin ("SAB") No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify and assess the materiality of financial statement misstatements. Although the SAB was directly applicable to public companies, BWH has elected to follow the prescribed guidance.

Prior to fiscal 2006, BWH recorded estimated accruals for settlements with third-party payers and certain other liabilities above specific accrual amounts. In addition, changes in third-party payer settlement estimates were generally amortized into income over a period not to exceed five years rather than recorded in total in the year of the change in estimate. The adoption of SAB 108 as of October 1, 2005 resulted in a decrease in accruals for settlements with third-party payers of \$26,502 and a decrease in accounts payable and accrued expenses of \$10,448. Adjustment of other differences resulted in a decrease in property and equipment of \$8,696. The impact of these adjustments resulted in a net increase of \$28,254 in unrestricted net assets. For the years ended September 30, 2007 and 2006, adjustments to prior year estimates resulted in an increase to income from operations of \$6,767 and \$7,335, respectively.

The Brigham and Women's Hospital, Inc.

Notes to Financial Statements

September 30, 2007 and 2006

(dollars in thousands)

Net Patient Service Revenue

BWH maintains agreements with the Centers for Medicare and Medicaid Services (CMS) of the United States Department of Health and Human Services (DHHS) under the Medicare Program, The Commonwealth of Massachusetts under the Medical Assistance Program (Medicaid) and various managed care payers that govern payment to BWH for services rendered to patients covered by these agreements. The agreements generally provide for per case or per diem rates or payments based on allowable costs, subject to certain limitations, for inpatient care and discounted charges or fee schedules for outpatient care. Certain "pay for performance" contracts also provide for payments that are contingent upon meeting agreed upon quality and efficiency measures.

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Contracts, laws and regulations governing the Medicare, Medicaid, and the uncompensated care pool programs (Note 1) and managed care payer arrangements 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. A portion of the accrual for settlements with third-party payers has been classified as long-term because such amounts, by their nature or by virtue of regulation or legislation, will not be paid within one year.

Charity Care

BWH provides either full or partial charity care to patients who cannot afford to pay for their medical services based on income and family size. Charity care is generally available to qualifying patients for medically necessary services. BWH reports certain bad debts related to emergency services as charity care. Charity care is reported at gross charges with an offsetting allowance, as there is no expectation of collection. Accordingly, there is no net patient service revenue related to charity care.

Other Revenue

Other revenue includes parking revenue, rental income and cafeteria sales.

Reclassifications

Certain amounts in the 2006 financial statements have been classified to conform with the 2007 presentation. Notes receivable from affiliate were combined with either other current assets or other assets.

3. Investment Transfer

Effective October 1, 2005, the Board of Trustees of BWH approved the permanent transfer of substantially all unrestricted investments to its parent, BW/F. As a result, substantially all unrestricted investments, related investment income, and gifts and expenses have been eliminated on BWH's financial statements as of and for the year ended September 30, 2006. Temporarily and permanently restricted investments, as well as externally limited investments, continue to be included in the financial statements of BWH. BWH accounted for this transaction as a net asset transfer in fiscal 2006. The impact of this transfer was to reduce investments and unrestricted net assets by \$384,887.

The Brigham and Women's Hospital, Inc.
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

4. Investments and Investments Limited as to Use

Investments are either separately invested or included in pooled investment funds. The Partners HealthCare System Pooled Investment Accounts (Partnership) is structured as a single general partnership composed of four investment pools, with PHS and substantially all of its affiliates participating in the pools as partners. Each partner's interest in the Partnership is based on its underlying investments in one or more of the four separate pools. Amounts included in the investment pools are accounted for using the fair value method whereby each partner is assigned a number of units based on the fair value of the assets of a pool at the time of entry of the funds into the pool. Current fair value is used to determine the number of units allocated to additional amounts placed in a pool and to value withdrawals from a pool. Income from investments of the pools, including realized gains and losses, is allocated on a unitized basis to a partner based on the partner's share of units in a pool.

The Partnership participates in a securities lending program with its custodian bank whereby securities are loaned to qualified financial institutions in exchange for collateral. Investments that have been loaned to another institution are reported as pledged assets in the consolidated financial statements of Partners HealthCare. Cash or investments received as collateral on the securities lending transaction are also reported as assets in the consolidated balance sheets. Because the collateral must be returned in the future, a corresponding liability is reported in the consolidated financial statements.

The composition of investments and investments limited as to use is as follows:

		September 30, 2007		
	Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
Pooled investments				
Invested cash equivalents	\$ 15,957	\$ -	\$ -	\$ 15,957
Equities	83,821	21,643	-	105,464
U.S. Government, domestic and foreign fixed income securities	10,789	821	(171)	11,439
Private partnerships and other	71,854	34,666	(225)	106,295
Accruals, net	(6)	-	-	(6)
	<u>182,415</u>	<u>57,130</u>	<u>(396)</u>	<u>239,149</u>
Separately invested				
Invested cash equivalents	1,162	-	-	1,162
Equities	409	-	-	409
U.S. Government and domestic fixed income securities	1,621	-	-	1,621
	<u>3,192</u>	<u>-</u>	<u>-</u>	<u>3,192</u>
	<u>\$ 185,607</u>	<u>\$ 57,130</u>	<u>\$ (396)</u>	<u>\$ 242,341</u>

The Brigham and Women's Hospital, Inc.
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

		September 30, 2006		
	Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
Pooled investments				
Invested cash equivalents	\$ 17,262	\$ -	\$ -	\$ 17,262
Equities	70,235	9,914	(1,037)	79,112
U.S. Government, domestic and foreign fixed income securities	10,190	505	(187)	10,508
Private partnerships and other	83,081	22,641	(45)	105,677
Accruals, net	115	-	-	115
	<u>180,883</u>	<u>33,060</u>	<u>(1,269)</u>	<u>212,674</u>
Separately invested				
U.S. Government and domestic fixed income securities	2,629	-	-	2,629
	<u>\$ 183,512</u>	<u>\$ 33,060</u>	<u>\$ (1,269)</u>	<u>\$ 215,303</u>

Investments and investments limited as to use are recorded in the balance sheet as follows:

	September 30,	
	2007	2006
Current assets		
Current portion of investments limited as to use	\$ 72,816	\$ 57,975
	<u>72,816</u>	<u>57,975</u>
Investments limited as to use, less current portion	19,575	17,863
Long-term investments	149,950	139,465
	<u>\$ 242,341</u>	<u>\$ 215,303</u>

Investments limited as to use consist of the following:

	September 30, 2007		September 30, 2006	
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion
Internally designated funds				
Other	\$ -	\$ 2,120	\$ -	\$ 1,070
Externally limited funds				
Unexpended funds on research	62,768	-	52,091	-
Contributions held for others	10,048	-	5,877	-
Professional liability trust fund	-	16,384	-	15,241
Held by trustees under debt and other agreements	-	1,071	7	1,552
	<u>72,816</u>	<u>17,455</u>	<u>57,975</u>	<u>16,793</u>
	<u>\$ 72,816</u>	<u>\$ 19,575</u>	<u>\$ 57,975</u>	<u>\$ 17,863</u>

The Brigham and Women's Hospital, Inc.
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

Investment income and gains (losses) from cash and equivalents, investments (including long-term) and investments limited as to use are comprised of the following:

	Years Ended September 30,	
	2007	2006
Unrestricted		
Dividends and interest income	\$ 2,553	\$ 2,267
Endowment income distributions, net of reinvested gains	531	725
Net realized gains (losses) on investments		
Trading gains	1,075	2,076
Other-than-temporary impairment	(205)	(60)
Change in net unrealized appreciation on equity method investments, net of recoveries on endowment funds	<u>1,573</u>	<u>(618)</u>
Total investment activity included in excess of revenues over expenses	<u>5,527</u>	<u>4,390</u>
Temporarily restricted		
Dividends and interest income	2,428	1,796
Endowment income distributions	(4,684)	(4,234)
Net realized gains (losses) on investments		
Trading gains	7,444	12,587
Other-than-temporary impairment	<u>(1,914)</u>	<u>(69)</u>
	<u>3,274</u>	<u>10,080</u>
Change in net unrealized appreciation on investments		
Equity method investments	15,421	(2,718)
Recoveries on endowment funds	<u>(19)</u>	<u>(8)</u>
	<u>15,402</u>	<u>(2,726)</u>
Total temporarily restricted investment activity	<u>18,676</u>	<u>7,354</u>
	<u>\$ 24,203</u>	<u>\$ 11,744</u>

The Brigham and Women's Hospital, Inc.
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

Investment income included in operating results and excess of revenues over expenses are comprised of the following:

	Years Ended September 30,	
	2007	2006
Investment income included in operations and reported in		
Other revenue	\$ 1,544	\$ 2,906
Investment income included in nonoperating gains (expenses) and reported in		
Income from investments	<u>3,983</u>	<u>1,484</u>
Total investment activity in excess of revenues over expenses	<u>\$ 5,527</u>	<u>\$ 4,390</u>

5. Pledges Receivable and Contributions Receivable from Trusts

Pledges receivable represent unconditional promises to give and are net of allowances for uncollectible amounts. Pledges are recorded at the present value of their estimated future cash flows. Pledges collectible within one year are classified as other current assets and total \$25,105 and \$22,888 as of September 30, 2007 and 2006, respectively. Estimated cash flows due after one year are discounted using published treasury bond and note yields that are commensurate with estimated collection risks. The blended discount rate was 4.2% and 4.6% for 2007 and 2006, respectively. Pledges are expected to be collected as follows:

	September 30,	
	2007	2006
Amounts due		
Within one year	\$ 27,752	\$ 28,351
In one to five years	46,866	33,437
In more than five years	<u>12,550</u>	<u>10,536</u>
Total pledges receivable	87,168	72,324
Less: Unamortized discount	<u>8,834</u>	<u>7,317</u>
	78,334	65,007
Less: Allowance for uncollectibles	<u>4,704</u>	<u>6,538</u>
Net pledges receivables	73,630	58,469
Contributions receivable from trusts	<u>1,107</u>	<u>1,026</u>
	<u>\$ 74,737</u>	<u>\$ 59,495</u>

The Brigham and Women's Hospital, Inc.
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

6. Property and Equipment

Property and equipment consists of the following:

	September 30,	
	2007	2006
Land and land improvements	\$ 19,891	\$ 19,891
Buildings and building improvements	738,282	759,179
Equipment	255,322	252,548
Construction in progress	<u>236,406</u>	<u>89,215</u>
	1,249,901	1,120,833
Accumulated depreciation	<u>(461,021)</u>	<u>(469,199)</u>
Property and equipment, net	<u>\$ 788,880</u>	<u>\$ 651,634</u>

Interest costs, net of interest earned, aggregating \$5,556 and \$3,655 were capitalized in 2007 and 2006, respectively.

For the years ended September 30, 2007 and 2006, fully depreciated assets with an original cost of \$84,591 and \$81,030, respectively, were written off.

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation ("FIN") No. 47, *Accounting for Conditional Asset Retirement Obligations*. Under FIN 47 an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists.

BWH implemented FIN 47 at September 30, 2006 and recorded conditional asset retirement obligations of approximately \$1,160. These conditional asset retirement obligations relate to certain materials requiring specific remediation efforts. Upon implementation of FIN 47, BWH recorded a \$1,160 reduction in unrestricted net assets which is recorded as a cumulative effect of a change in accounting principle.

The Brigham and Women's Hospital, Inc.
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

7. Long-Term Obligations

Long-term obligations consist of the following:

	September 30,	2006
	2007	2006
Notes payable to PHS		
Partners HealthCare Capital Framework Loan, variable interest rate of 5.10% and 5.11% at September 30, 2007 and 2006, respectively, final maturity in 2037	\$ 502,440	\$ 462,564
Massachusetts Health and Educational Facilities Authority (Authority) Revenue Bonds		
Partners HealthCare System issue		
Series P, variable interest rate of 3.86% and 3.75% at September 30, 2007 and 2006, respectively, final maturity in 2007	-	1,901
Capital lease obligations	<u>3,256</u>	<u>5,183</u>
	505,696	469,648
Less current portion	<u>20,871</u>	<u>29,372</u>
	<u>\$ 484,825</u>	<u>\$ 440,276</u>

The Partners HealthCare Capital Framework Loan bears interest at a variable rate based upon the weighted average cost of Partners HealthCare's debt, reset annually, effective October 1.

The Authority issued \$150,000 Revenue Bonds, Capital Asset Program, Series P to PHS, from which a \$100,000 loan commitment was made to PHS and \$25,000 loan commitments were made to both BWH and The General Hospital Corporation (the General). Under the Capital Asset Program, qualified PHS affiliates may borrow funds to finance eligible projects. Loan repayments are expected to be recycled throughout Partners HealthCare until final bond maturity in 2027. The Series P loan to BWH is an unsecured obligation of BWH.

Partners HealthCare Series 2007 Taxable Bonds and the Authority's Series A, B, C, D, E, F and G bonds issued on behalf of Partners HealthCare and Series P loan are unsecured general obligations of PHS, supported by guarantees from BW/F, BWH, MGH, and the General which may be suspended under certain conditions. PHS guarantees payment of the NWH Authority bonds. BW/F, BWH, MGH and the General have also provided suspendable guarantees of the performance by PHS on the NWH guarantee.

Aggregate maturities and payments of long-term obligations, including obligations under capital leases (Note 8), during the next five years are as follows: 2008 - \$20,871; 2009 - \$21,070; 2010 - \$22,130; 2011 - \$22,431 and 2012 - \$23,866.

Long-term obligations have variable interest rates that reflect currently available terms and conditions for similar debt. The carrying amount for this debt is a reasonable estimate of its fair value.

The Brigham and Women's Hospital, Inc.
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

Interest expense approximates interest paid, net of capitalized interest, during the years ended September 30, 2007 and 2006.

8. Commitments

Leases

BWH has capital and noncancelable operating leases for certain buildings and equipment. Rental expense under operating leases approximated \$75,789 in 2007 and \$74,004 in 2006, including expenses under leases with BW/F of \$768 in 2007 and 2006. Minimum future lease commitments under noncancelable leases, including a total commitment of \$8,448 for research building rentals with BW/F, for the next five years and thereafter are as follows:

	Capital Leases	Operating Leases
2008	\$ 1,316	\$ 49,224
2009	1,316	44,388
2010	878	44,335
2011	-	43,376
2012	-	38,350
Thereafter	-	<u>221,223</u>
Total lease payments	<u>3,510</u>	<u>\$ 440,896</u>
Less amount representing interest	<u>254</u>	
Capital lease obligations at September 30, 2007	<u>\$ 3,256</u>	

Construction Projects

BWH is constructing a building which will house its center for cardiovascular care, consisting of inpatient beds, operating rooms, outpatient procedure and clinic areas, and ancillary support departments. Construction began in fiscal year 2005 and \$184,600 has been recorded in construction in progress as of September 30, 2007 and approximately \$62,200 in construction contracts are outstanding related to this project. Occupancy is currently estimated at May 2008. The total project cost is expected to be approximately \$383,000.

In addition, BWH is constructing a 12-story, 376,000 square foot research, clinical and office building. A master planning and permitting process is currently underway. Construction is anticipated to begin in May 2008. Occupancy is currently estimated at March 2012. The total project cost is expected to be approximately \$348,000.

9. Pension and Postretirement Healthcare Plans

Substantially all employees of BWH are covered under The Brigham and Women's Hospital Retirement Plan (BWH Plan), a noncontributory defined benefit pension plan. Benefits under the cash balance accrual formula consist of annual allocations to participants' accounts based on the participants' age, years of service and salary. Interest is credited to participants' accounts annually at market rates. The amount of pension expense allocated under this plan to the BWH was \$22,609 in 2007 and \$16,929 in 2006.

The Brigham and Women's Hospital, Inc.
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

Effective January 2005, eligible employees of BWH and BWPO can participate in the BWH Retiree Medical Savings Account Plan. This plan will be funded primarily with employee contributions. The employer will also provide an annual match and interest will be credited annually to participant accounts at market rates.

Certain professional staff employed by BWH who hold appointments at the Harvard Medical School, as well as certain administrative staff, participate in the Brigham and Women's Hospital Professional Staff Retirement Plan, which is a defined contribution plan. BWH contributes to the plan a percentage, as defined by the plan agreement, of each participant's annual compensation. The amount of expense incurred under this plan by BWH for 2007 and 2006 was \$10,253 and \$10,165, respectively.

BWH uses a measurement date of June 30 for the defined pension benefit and postretirement healthcare benefit plans.

Benefit Obligations

Change in Benefit Obligations	Defined Benefit Pension Plan		Postretirement Healthcare Benefit Plan	
	2007	2006	2007	2006
Benefit obligations at beginning of year	\$ 583,635	\$ 515,438	\$ 3,578	\$ 950
Service cost	31,894	28,198	404	448
Interest cost	37,848	30,481	247	81
Assumption changes	-	22,159	-	(157)
Actuarial loss	3,509	6,951	170	260
Employee contributions	-	-	2,272	2,005
Benefits paid	(20,926)	(19,592)	(21)	(9)
Benefit obligations at end of year	<u>\$ 635,960</u>	<u>\$ 583,635</u>	<u>\$ 6,650</u>	<u>\$ 3,578</u>

The Brigham and Women's Hospital, Inc.
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

The accumulated benefit obligation for the defined benefit pension plan at the end of 2007 and 2006 was \$548,677 and \$499,226, respectively.

Weighted-Average Assumptions Used to Determine End of Year Benefit Obligation	Defined Benefit Pension Plan		Postretirement Healthcare Benefit Plan	
	2007	2006	2007	2006
Discount rate	6.25%	6.25%	6.25%	6.25%
Rate of compensation increase	5.10%	5.10%	N/A	N/A

Plan Assets

Change in Plan Assets	Defined Benefit Pension Plan		Postretirement Healthcare Benefit Plan	
	2007	2006	2007	2006
Fair value of plan assets at beginning of year	\$ 597,121	\$ 519,930	\$ 2,832	\$ 734
Actual return on plan assets	107,467	78,550	494	93
Employer contributions	23,767	18,233	21	9
Employee contributions	-	-	2,272	2,005
Benefits paid	<u>(20,926)</u>	<u>(19,592)</u>	<u>(21)</u>	<u>(9)</u>
Fair value of plan assets at end of year	<u>\$ 707,429</u>	<u>\$ 597,121</u>	<u>\$ 5,598</u>	<u>\$ 2,832</u>

BWH's benefit plan weighted-average target asset allocation ranges as well as actual allocations, by asset category for 2007 and 2006, are as follows:

Asset Category	Defined Benefit Pension Plan			Postretirement Healthcare Benefit Plan		
	Target Allocation	Percentage of Plan Assets		Target Allocation	Percentage of Plan Assets	
		2007	2006		2007	2006
Domestic equity securities	6% - 26%	17.6%	18.9%	40% - 60%	44.2%	46.9%
Foreign equity securities	17% - 37%	26.4%	25.5%	10% - 30%	14.3%	13.0%
Fixed income securities	1% - 21%	14.5%	16.0%	20% - 40%	41.5%	40.1%
Less market sensitive strategies	20% - 40%	27.9%	27.1%	-	-	-
Inflation protection strategies	<u>6% - 26%</u>	<u>13.6%</u>	<u>12.5%</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Brigham and Women's Hospital, Inc.

Notes to Financial Statements

September 30, 2007 and 2006

(dollars in thousands)

Less market sensitive investments include hedge funds employing long/short equity, diversified arbitrage and absolute return strategies, which in the aggregate are expected to generate positive returns on a consistent basis. Inflation protection strategies include investments in real estate assets/commodities, equity securities of commodity related companies and inflation protection bonds.

The investment objective is to achieve the highest reasonable total return after considering (i) plan liabilities, (ii) funding status and projected cash flows, (iii) projected market returns, valuations and correlations for various asset classes, and (iv) Partners HealthCare's ability and willingness to incur market risk. Partners HealthCare's Investment Committee actively manages plan assets in order to add incremental returns by manager selection and asset allocation (increasing/decreasing allocations within allowable ranges based on current and projected valuations).

Funded Status

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158). SFAS 158 focuses primarily on balance sheet reporting for the funded status of benefit plans and requires recognition of benefit liabilities for underfunded plans and benefit assets for overfunded plans, with offsetting impacts to unrestricted net assets. BWH elected to early adopt the balance sheet recognition provisions of SFAS 158 as of September 30, 2006. The impact of adoption resulted in an increase of \$18,196 in unrestricted net assets related to the BWH Plan and a \$69 increase in unrestricted net assets related to the BWH Retiree Medical Savings Account Plan. The adjustments were recorded as a cumulative effect of a change in accounting principle.

SFAS 158 also requires companies to measure benefit plan assets and liabilities and determine the discount rate for subsequent year expense recognition as of the balance sheet date for financial reporting purposes, thus eliminating the opportunity to use a measurement date up to 90 days prior to the balance sheet date. The effective date for this change is 2009. BWH currently uses a June 30 measurement date and will adopt a September 30 measurement date in 2009 as required. Converting to the new measurement date will require a one-time adjustment to unrestricted net assets per the transition guidance in SFAS 158.

The Brigham and Women's Hospital, Inc.
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

The funded status of the plans, and the related amounts recognized in the balance sheet, follows:

End of Year	Defined Benefit Pension Plan		Postretirement Healthcare Benefit Plan	
	2007	2006	2007	2006
Fair value of plan assets at measurement date	\$ 707,429	\$ 597,121	\$ 5,598	\$ 2,832
Contributions received after measurement date	6,352	4,710	15	3
Benefit obligations at measurement date	(635,960)	(583,635)	(6,650)	(3,578)
Funded status	<u>\$ 77,821</u>	<u>\$ 18,196</u>	<u>\$ (1,037)</u>	<u>\$ (743)</u>
Amounts recognized in balance sheet consist of				
Noncurrent assets	\$ 77,821	\$ 18,196	\$ -	\$ -
Long-term liabilities	-	-	(1,037)	(743)
Amounts recognized in unrestricted net assets consist of				
Actuarial net gain	\$ (79,025)	\$ (19,371)	\$ (183)	\$ (69)
Prior service cost	1,204	1,175	-	-
	<u>\$ (77,821)</u>	<u>\$ (18,196)</u>	<u>\$ (183)</u>	<u>\$ (69)</u>

Expected Cash Flows

Information about the expected cash flows for the defined benefit pension and postretirement healthcare benefit plans follows:

	Defined Benefit Pension Plan	Postretirement Healthcare Benefit Plan
Expected employer contributions - 2008	\$ 23,300	\$ 64
Expected benefit payments		
2008	\$ 20,300	\$ 64
2009	23,400	103
2010	25,600	147
2011	28,000	199
2012	31,600	271
2013 and thereafter	215,900	2,033

The Brigham and Women's Hospital, Inc.
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

Net Periodic Benefit Cost

	Defined Benefit Pension Plan		Postretirement Healthcare Benefit Plan	
	2007	2006	2007	2006
Service cost	\$ 31,894	\$ 28,198	\$ 404	\$ 448
Interest cost	37,848	30,481	247	81
Expected return on plan assets	(44,304)	(39,507)	(210)	(55)
Amortization of				
Transition asset	-	(305)	-	-
Prior service actuarial credit	(29)	(28)	-	-
Net actuarial gain	-	-	-	(5)
Net periodic benefit cost	<u>\$ 25,409</u>	<u>\$ 18,839</u>	<u>\$ 441</u>	<u>\$ 469</u>

The actuarial net loss and prior service credit for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost in 2008 is \$0 and \$29, respectively. The actuarial net gain for the BWH Retiree Medical Savings Account Plan that will be amortized from unrestricted net assets into net periodic benefit cost in 2008 is \$0.

Weighted-Average Assumptions Used to Determine Net Periodic Cost and Postretirement Cost	Defined Benefit Pension Plan		Postretirement Healthcare Benefit Plan	
	2007	2006	2007	2006
Discount rate	6.25%	5.75%	6.25%	5.75%
Expected return on plan assets	8.25%	8.25%	7.50%	7.50%
Rate of compensation increase	5.10%	5.10%	N/A	N/A

Partners HealthCare considers multiple factors in establishing a multi-year projected return assumption for its benefit programs. These include, but are not limited to: its current asset allocation policy and target ranges by asset class; asset valuations; historical and projected rates of return by asset class; historical and projected correlations among asset classes; the opportunity to exceed passive index returns via active management through a combination of manager selection and alternative weightings among and within asset classes; and Partners HealthCare's historical performance experience.

10. Professional Liability Insurance

BWH insures substantially all of its professional and general liability risk on a claims-made basis in cooperation with PHS affiliates and other organizations in the Greater Boston area through a captive insurance company, Controlled Risk Insurance Company Ltd. (CRICO). The policy covers claims made during its term, but not those occurrences for which claims may be made after expiration of the policy, except for certain tail liabilities which CRICO has assumed on an occurrence basis through December 31, 2007. Management intends to renew its coverage on a claims-made basis and has no reason to believe that it will be prevented from such renewal.

The Brigham and Women's Hospital, Inc.
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

BWH follows the accounting policy of establishing reserves to cover all professional liability claims incurred but not reported to the insurance company as of the end of the year (tail liability), excluding the tail liability assumed by CRICO. These reserves have been estimated by consulting actuaries on a discounted basis using an interest rate of 5.75% at September 30, 2007 and 2006.

Management is not aware of any claims against BWH or factors affecting CRICO that would cause the expense for professional liability risks to vary materially from the amount provided.

11. Transactions with Affiliates

BWH received fund-raising, investment management, legal, financial and administrative services from PHS and BW/F of \$125,660 and \$120,498 in 2007 and 2006, respectively. BWH also purchased certain teaching and administrative services, professional services, as well as leased space from BW/F and MGH affiliates which amounted to \$60,431 and \$54,653 in 2007 and 2006, respectively. BWH provided certain administrative and support services, as well as leased space and professional services to PHS, BW/F and MGH affiliates, which totaled \$10,995 and \$11,477 in 2007 and 2006, respectively. All services among these affiliated corporations were reimbursed on an estimated cost basis.

During 2007 and 2006, BWH transferred funds to, and received funds from, certain affiliated corporations. These equity transfers are reported separately as changes in net assets and are excluded from excess of revenues over expenses. Amounts transferred were as follows:

	Years Ended September 30,	
	2007	2006
Transfers from (to)		
BW/F	\$ 43,633	\$ (71,140)
BCP	(48)	(750)
PHS	409	706
BWPO	-	1,170
	<u>43,994</u>	<u>(70,014)</u>
Liability transfer to (from) PHS	(3,078)	25,000
Investment transfer to BW/F (Note 3)	-	(384,887)
	<u> </u>	<u> </u>
Transfers from (to) affiliates, net	<u>\$ 40,916</u>	<u>\$ (429,901)</u>

The Brigham and Women's Hospital, Inc.
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

12. Concentrations of Credit Risk

Financial instruments that potentially subject BWH to concentrations of credit risk consist of patient accounts receivable, pledges receivable, research grants receivable and certain investments. BWH receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party payers, including Medicare, Medicaid, Blue Cross and Blue Shield of Massachusetts, Harvard Pilgrim Health Care and Tufts Associated Health Plan. Research funding is provided through many government and private sponsors. Pledges receivable are due from multiple donors. BWH considers the credit risk for pledges to be minimal based on history and the financial wherewithal of donors, most of which are individuals or organizations well known to the Hospital. Investments, which include government and agency securities, stocks and corporate bonds, and private partnerships and other investments are not concentrated in any corporation or industry or with any single counterparty. BWH has not historically incurred any significant credit losses outside the normal course of business.

13. Restricted Net Assets

Restricted net assets are available for the following purposes:

	September 30,	
	2007	2006
Temporarily restricted		
Charity care	\$ 18,606	\$ 16,040
Buildings and equipment	65,190	46,494
Clinical care, research and academic	<u>115,959</u>	<u>98,986</u>
	<u>\$ 199,755</u>	<u>\$ 161,520</u>
Permanently restricted		
Charity care	\$ 1,846	\$ 1,846
Clinical care, research and academic	<u>36,797</u>	<u>31,823</u>
	<u>\$ 38,643</u>	<u>\$ 33,669</u>

14. Functional Expenses

Total operating expenses by function are as follows:

	Years Ended	
	September 30,	
	2007	2006
Healthcare services	\$ 1,105,648	\$ 1,022,285
Research and academic	435,913	435,221
General and administrative	<u>121,375</u>	<u>115,886</u>
	<u>\$ 1,662,936</u>	<u>\$ 1,573,392</u>

The Brigham and Women's Hospital, Inc.
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

15. Contingencies

BWH is subject to complaints, claims and litigation which have risen in the normal course of business. In addition, BWH is subject to reviews by various federal and state government agencies to assure compliance with applicable laws, some of which are subject to different interpretations. Recently, governmental review of compliance by healthcare institutions, including BWH, has increased.

The Brigham and Women's Hospital, Inc.
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

	Federal CFDA Number	Total Federal Expenditures
RESEARCH AND DEVELOPMENT AND RESEARCH TRAINING CLUSTER		
Research and Development Direct Programs		
Department of Health and Human Services		
National Institutes of Health		
Biological Response to Environmental Health Hazards	93.113	\$ 1,359,500
Applied Toxicological Research and Testing	93.114	271,948
Biometry and Risk Estimation-Health Risks from Environmental Exposures	93.115	1,007,652
Oral Diseases and Disorders Research	93.121	5,169,294
Human Genome Research	93.172	1,469,296
Research Related to Deafness and Communication Disorders	93.173	113,388
Medical Treatment Effectiveness Research	93.180	334,246
Research and Training in Complementary and Alternative Medicine	93.213	1,164,480
National Center on Sleep Disorders Research	93.233	2,350,143
Mental Health Research Grants	93.242	4,535,364
Alcohol Research Programs	93.273	439,906
Drug Abuse and Addiction Research Programs	93.279	(29,723)
Biomedical Imaging Research	93.286	8,545,567
General Clinical Research Centers	93.333	(720)
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.371	401,256
National Center for Research Resources	93.389	10,481,368
Cancer Cause and Prevention Research	93.393	22,844,788
Cancer Detection and Diagnosis Research	93.394	5,151,343
Cancer Treatment Research	93.395	1,662,961
Cancer Biology Research	93.396	4,052,740
Cancer Centers Support Grants	93.397	3,375,906
Health Cancer Control	93.399	2,589,871
Cell Biology and Biophysics Research	93.821	(9,171)
Heart and Vascular Diseases Research	93.837	22,977,257
Lung Diseases Research	93.838	21,582,593
Blood Diseases and Resources Research	93.839	1,938,220
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	7,327,712
Diabetes, Endocrinology and Metabolism Research	93.847	5,076,817
Digestive Diseases and Nutrition Research	93.848	3,900,146
Kidney Diseases, Urology and Hematology Research	93.849	8,493,629
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	11,083,949
Biological Basis Research in the Neurosciences	93.854	(944,670)
Allergy, Immunology and Transplantation Research	93.855	27,924,644
Microbiology and Infectious Diseases Research	93.856	757,832
Biomedical Research and Research Training	93.859	7,577,034
Genetics and Developmental Biology Research and Research Training	93.862	44,450
Population Research	93.864	248,116
Child Health and Human Development Extramural Research	93.865	3,875,278
Aging Research	93.866	10,464,971
Vision Research	93.867	1,485,035
Medical Library Assistance	93.879	5,147,274
Fogarty International Research Collaboration Award	93.934	6,927
Cancer Cause and Prevention Research	93.961	427,436
International Research and Research Training	93.989	65,971
National Institutes of Health Contracts	93.000	309,203
Subtotal - National Institutes of Health		<u>217,051,227</u>
Other Department of Health and Human Services		
Department of Health and Human Services	93.000	27,355
Agency for Health Care Policy and Research		
Health Services Research and Development Grants	93.226	1,852,034
Centers for Disease Control		
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.262	940,661
Research, Treatment and Education Programs on Lyme Disease in the United States	93.942	459,491

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

The Brigham and Women's Hospital, Inc.
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

	Federal CFDA Number	Total Federal Expenditures
Research and Development Direct Programs (cont.)		
Centers for Medicare and Medicaid Services		
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	\$ 696,085
Health Resources and Services Administration		
Maternal and Child Health Federal Consolidated Programs	93.110	(22,990)
Substance Abuse and Mental Health Services Administration		
Consolidated Knowledge Development and Application Program	93.230	(21,263)
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	<u>147,043</u>
Subtotal - Other Department of Health and Human Services		<u>4,078,416</u>
Subtotal - Department of Health and Human Services		<u>221,129,643</u>
Department of Agriculture		
Grants for Agricultural Research - Competitive Research Grants	10.206	(3,455)
Agricultural and Rural Economic Research	10.250	<u>(5,213)</u>
Subtotal - Department of Agriculture		<u>(8,668)</u>
Department of Defense		
Military Medical Research and Development	12.420	2,576,205
Air Force Defense Research Sciences Program	12.800	813,038
Research and Technology Development	12.910	<u>(51,700)</u>
Subtotal - Department of Defense		<u>3,337,543</u>
Department of Justice		
Corrections and Law Enforcement Family Support	16.563	<u>418,041</u>
Subtotal - Department of Justice		<u>418,041</u>
Department of State		
Department of State	19.000	94,890
Professional Exchange-Annual Open Grant	19.415	55,633
Middle East Partnership Initiative (MEPI)	19.500	<u>(66,840)</u>
Subtotal - Department of the State		<u>83,683</u>
Department of Transportation		
Aviation Research Grants	20.108	<u>242,046</u>
Subtotal - Department of Transportation		<u>242,046</u>
Department of Veterans' Affairs		
Veterans Rehabilitation - Alcohol and Drug Dependence	64.019	<u>192,782</u>
Subtotal - Department of Veterans' Affairs		<u>192,782</u>
National Aeronautics and Space Administration		
Aerospace Education Services Program	43.001	<u>652,165</u>
Subtotal - National Aeronautics and Space Administration		<u>652,165</u>
National Science Foundation		
Engineering Grants	47.041	43,204
Computer and Information Science and Engineering	47.070	100,733
Biological Sciences	47.074	<u>60,476</u>
Subtotal - National Science Foundation		<u>204,413</u>
Environmental Protection Agency		
Environmental Protection Consolidated Research	66.500	<u>100,732</u>
Subtotal - Environmental Protection Agency		<u>100,732</u>
Total Research and Development Direct Programs		<u>226,352,380</u>

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

The Brigham and Women's Hospital, Inc.
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

	Federal CFDA Number	Pass-Through Number	Total Federal Expenditures
Research and Development Passed Through Other Organizations			
Department of Health and Human Services			
National Institutes of Health			
Harvard School of Public Health	93.113	Various	\$ 491,245
University of California, Berkeley	93.113	2P01ES009825-06	41,773
University of California, Los Angeles	93.114	Various	54,135
Boston University Medical Center	93.121	1R01DE015566-01-A1	24,413
Massachusetts General Hospital	93.121	5R01DE017821-02	135,863
Massachusetts Institute of Technology	93.121	1R01DE013053	(1,000)
Harvard Medical School	93.121	Various	(62,346)
New England Medical Center	93.121	5R01DE015302-03	127,070
New England Research Institute, Inc.	93.121	R44DE014797	44,751
University of Chicago	93.121	Various	107,593
Harvard School of Public Health	93.143	Various	(23,392)
Harvard School of Public Health	93.144	5P01ES009825-06	(1,419)
Children's Hospital of Boston	93.172	5R01HD046855-03	79,749
Fred Hutchinson Cancer Research Center	93.172	Various	3,127
University of California at Berkeley	93.172	Various	61,409
Children's Hospital of Boston	93.173	5R01DC007127-03	36,227
Harvard Medical School	93.213	R01AT000905	(79,001)
Massachusetts General Hospital	93.213	5P01AT002048-04	28,228
Wake Forest University	93.213	5P50AT002782-02	324,387
Beth Israel Deaconess Medical Center	93.233	7P50HL060292-09	441,269
Beth Israel Deaconess Medical Center	93.242	Various	31,465
Harvard Medical School	93.242	5R01MH061941-04	20,711
Harvard Pilgrim Health Care	93.242	Various	(15)
Massachusetts General Hospital	93.242	Various	474,256
Rutgers University	93.242	5R01MH059970-08	(2,024)
University of Minnesota	93.242	Various	(245,050)
Ohio State University Research Foundation	93.262	1R01OH008649-01-A1	30,473
Aquila Biopharmaceuticals, Inc.	93.273	2R44AI040798-01	(13,568)
University of Maryland, Baltimore	93.273	5R21AA015038-02	10,001
Wake Forest University	93.273	1R01AA016748-01	25,222
Inflexion, Inc.	93.279	2R44DA015617-02	12,469
Massachusetts General Hospital	93.279	1R21DA019709-01-A1	87,131
Massachusetts Institute of Technology	93.286	1R01EB003805-02	264,811
Boston College	93.361	1R01NR008033-01-A2	1,493
Massachusetts General Hospital	93.389	5U54RR021382-03	614,539
Mount Sinai School of Medicine	93.389	1R01HL082950-01	(40,396)
Nemours Children's Clinic	93.389	5R01HL074755-03	(12,906)
Tufts University	93.389	R21RR02198	116,694
University of California, Irvine	93.389	1U24RR021992	275,640
University of Rochester Medical Center	93.389	8U54NS059065-04	145,600
Columbia University	93.393	5R01CA104842-03	142,631
Dana Farber Cancer Institute	93.393	P30CA06516-42	(296,120)
Harvard Medical School	93.393	Various	32,926
Harvard School of Public Health	93.393	Various	1,554,454
Johns Hopkins University	93.393	5U01CA084986-08	1,903
Massachusetts Institute of Technology	93.393	5 R01 CA075289-03	(339)
Omni Guide Communications, Inc.	93.393	R43CA112744	(5,056)
University of Arizona	93.393	1R01CA125821-01	17,986
University of California, San Francisco	93.393	5R01CA101849-03	73,929
University of North Carolina	93.393	5R01CA074015-10	26,867
University of Texas, MD Anderson Cancer	93.393	1R01CA119215-01	16,694
American College of Radiology	93.394	Various	51,566
Boston University	93.394	R21CA112418-01	15,094
Children's Hospital of Boston	93.394	HHSN266200400030C	369,373
Dana Farber Cancer Institute	93.394	5R01CA114465-02	45,941
Harvard Medical School	93.394	1U01CA091429-05	(6,438)
Massachusetts Institute of Technology	93.394	1R01CA979660-3	72,275

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

The Brigham and Women's Hospital, Inc.
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

	Federal CFDA Number	Pass-Through Number	Total Federal Expenditures
Research and Development Passed Through Other Organizations (cont.)			
New England Research Institute, Inc.	93.394	HHSN268200425207C	\$ 174,467
University of Chicago	93.394	5U24CA114725-03	201,224
University of Pennsylvania	93.394	1R01CA104976-03	61,113
Boston University	93.395	7U19CA048626-08	(61)
Dana Farber Cancer Institute	93.395	Various	825,312
Duke Clinical Research Institute	93.395	7U10CA076001-04	559
Massachusetts General Hospital	93.395	1R21CA117128-01-A1	38,556
Thomas Jefferson University	93.395	5R01CA100370-03	29,413
University of Chicago	93.395	U10CA031946	864
University of Michigan	93.395	Various	14,130
University of Texas, MD Anderson Cancer Center	93.395	5P01CA108631-02	304,227
Dana Farber Cancer Institute	93.396	Various	252,889
Princeton University	93.396	5P01CA087661-04	6,845
University of Michigan	93.396	Various	82,388
University of Pennsylvania	93.396	5P01CA093615-05	66,842
University of Virginia	93.396	7R01CA089406-04	(643)
University of Washington	93.396	2R01CA061889-08	(573)
Albert Einstein College of Medicine	93.397	5R01CA077290-07	555
Beth Israel Deaconess Medical Center	93.397	5P50CA101942-04	398,293
Dana Farber Cancer Institute	93.397	Various	2,354,544
Massachusetts General Hospital	93.397	5U56CA113004-03	58,806
University of Michigan	93.397	Various	10,130
Beth Israel Deaconess Medical Center	93.399	5U01CA113913-02	131,882
Dana Farber Cancer Institute	93.399	5P50CA090381-05	243,624
Fred Hutchinson Cancer Research Center	93.399	Various	163,223
Group Health Cooperative	93.399	5U19CA079689-09	14,793
Harvard Medical School	93.399	1U01CA093324-05	22,305
Harvard School of Public Health	93.399	5U01CA011464-02	(2,364)
Massachusetts General Hospital	93.399	1R01CA119388-01	68,453
Massachusetts Institute of Technology	93.399	5U54CA119349-02	186,798
University of California, Los Angeles	93.399	Various	(1,315)
Albert Einstein College of Medicine	93.837	5R01HL075619-04	59,027
Beth Israel Deaconess Medical Center	93.837	Various	6,070
Children's Hospital of Oakland	93.837	2U01HL069757-06	108,390
Columbia University	93.837	1U01HL5398605A2	(750)
Duke Clinical Research Institute	93.837	1U01HL063747-01-A2	44,611
Harvard Medical School	93.837	5R25HL075487-04	12,346
Harvard School of Public Health	93.837	Various	1,117,739
Johns Hopkins University	93.837	5R01HL067098-05	178,558
Joslin Diabetes Center	93.837	R01HL077554	63,366
Massachusetts General Hospital	93.837	Various	436,961
Massachusetts Institute of Technology	93.837	5P01HL064858-05	97,634
Nitrosci	93.837	2R44AG020445-03	(7,068)
Rhode Island Hospital	93.837	1R01HL080127-01-A1	83,792
Stanford University	93.837	5U01HL068060-05	419,493
University of Pennsylvania	93.837	Various	33,672
University of Rochester	93.837	Various	3,780
Beth Israel Deaconess Medical Center	93.838	Various	125,082
Boston University	93.838	5R01HL076778-03	444,896
Harvard Pilgrim Health Care	93.838	Various	387,210
Midwest RF, LLC	93.838	1R41HL065796-01	(9,135)
University of Pittsburgh	93.838	1R01HL084323-01	54,088
Washington University	93.838	5P01HL029594-21	(6,444)
Yale University School of Medicine	93.838	5R01HL068201-03	26,793
Albert Einstein College of Medicine	93.839	5P01HL055435-10	109,900
Boston Medical Center	93.839	Various	125,177
Boston University Medical Center	93.839	1P01HL081587-01	499,872

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

The Brigham and Women's Hospital, Inc.
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

	Federal CFDA Number	Pass-Through Number	Total Federal Expenditures
Research and Development Passed Through Other Organizations (cont.)			
Center for Blood Research, Inc.	93.839	Various	\$ 399,465
Children's Hospital of Boston	93.839	Various	658,119
Dana Farber Cancer Institute	93.839	Various	145,391
Harvard Medical School	93.839	Various	8,850
Washington University	93.839	5R01HL074724-04	93,524
Boston University Medical Center	93.846	5P01AR049920-02	18,550
California Pacific Medical Center	93.846	Various	128,881
Genetix Pharmaceuticals, Inc.	93.846	1R41AR049632-01	(44,115)
Beth Israel Deaconess Medical Center	93.847	5R01DK063296-04	238,391
Boston University	93.847	5R01DK065089-03	81,293
Children's Hospital of Boston	93.847	Various	134,630
Joslin Diabetes Center	93.847	Various	81,309
Massachusetts General Hospital	93.847	5R01DK067397-02	13,179
University of California, Los Angeles	93.847	Various	243,418
Boston Medical Center	93.848	5P30DK046200-14	7,238
Children's Hospital of Boston	93.848	Various	186,607
Harvard Clinical Nutrition Research Center	93.848	2P30DK040561-11	17,814
University of Hawaii	93.848	7R01DK052963-07	1,063
University of Nebraska Medical Center	93.848	5R01DK048794-09	(8,527)
Baylor College of Medicine	93.849	5R01DK062363-05	105,521
Dana Farber Cancer Institute	93.849	5P01DK050654-10	263,427
Massachusetts General Hospital	93.849	Various	403,307
Rhode Island Hospital	93.849	5U01DK061700-04	117,295
University of California, San Francisco	93.849	1R33DK067645-01-A1	137,674
University of Central Florida	93.849	2R01DK055734-07	17,028
Beth Israel Deaconess Medical Center	93.853	Various	119,598
Children's Hospital of Boston	93.853	Various	406,783
Columbia University	93.853	R01NS27941	65
Dana Farber Cancer Institute	93.853	5R01NS044914-04	(3,929)
Harvard Medical School	93.853	Various	414,976
Harvard School of Public Health	93.853	Various	245,906
Massachusetts General Hospital	93.853	Various	372,043
Thomas Jefferson University	93.853	2R01NS036590-05	(2,028)
Tufts University School of Medicine	93.853	Various	243,601
University of Alabama, Birmingham	93.853	1U01NS042685-01-A2	184
University of California, Santa Barbara	93.853	Various	1,003,043
University of Florida	93.853	5R01NS038455-07	2,329
University of Medicine and Dentistry of New Jersey	93.853	5R01NS038384-05	368
University of Pennsylvania	93.853	1R01NS045021-04	4,977
University of Rochester	93.853	5U01NS050095-03	744
University of Virginia	93.853	5R01NS035142-07	34
Mayo Clinic Jacksonville	93.854	5R01NS039072-06	28,082
Aquila Biopharmaceuticals, Inc.	93.855	2R44AI040798-02-A1	(3,167)
Beth Israel Deaconess Medical Center	93.855	Various	32,387
Children's Hospital of Boston	93.855	Various	54,172
Columbia University	93.855	7U19AI056362-04	262,031
Dana Farber Cancer Institute	93.855	Various	1,629,224
Dartmouth College	93.855	HD0902023	(1,034)
Feinstein Institute for Medical Research	93.855	5U19AI056362-05	28,378
Fred Hutchinson Cancer Research Center	93.855	1U01AI068614-01	66,168
Harvard Medical School	93.855	Various	1,663,951
Harvard School of Public Health	93.855	Various	185,068
Massachusetts General Hospital	93.855	Various	387,398
Mount Sinai School of Medicine	93.855	1U01AI070107-01	227,510
Tufts University	93.855	N01AI30050	245,973

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

The Brigham and Women's Hospital, Inc.
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

	Federal CFDA Number	Pass-Through Number	Total Federal Expenditures
Research and Development Passed Through Other Organizations (cont.)			
University of Alabama	93.855	7U19AI056362-05	\$ 33,028
University of California, Los Angeles	93.855	Various	12,302
University of Colorado	93.855	Various	11,626
University of Pennsylvania	93.855	5P01AI041521-10	408,046
University of Wisconsin, Madison	93.855	N01AI025496	183,515
Beth Israel Deaconess Medical Center	93.856	5R01AT002454-03	13,618
Children's Hospital of Boston	93.856	Various	46,838
Dana Farber Cancer Institute	93.856	5R21AI067032-02	33,128
Duke University	93.856	Various	79,672
Fred Hutchinson Cancer Research Center	93.856	5U01AI046747-05	(10,449)
Harvard Medical School	93.856	Various	1,313,444
Harvard School of Public Health	93.856	Various	38,116
Massachusetts General Hospital	93.856	Various	59,614
President and Fellows of Harvard College	93.856	5U54AI057159-03	97,672
Social and Scientific Systems, Inc.	93.856	Various	342,986
University of Massachusetts, Worcester	93.856	5R01AI052455-05	174,403
Harvard Pilgrim Health Care	93.859	1U01GM076672-01	235,739
Kaiser Permanente Medical Care Program	93.859	1R01GM801800-01-A2	78,622
Massachusetts General Hospital	93.859	5U54GM062119-05	2,072
University of Washington	93.859	5R01GM071852-03	91,958
American Society for Reproductive Medicine	93.864	Various	30,361
Massachusetts General Hospital	93.864	Various	326,885
University of Rochester	93.864	Various	162,269
Children's Hospital of Boston	93.865	Various	68,969
Harvard School of Public Health	93.865	5R01JC044391-04	85,485
Massachusetts General Hospital	93.865	Various	61,218
Southern Research Institute	93.865	N01HD03350	75
Beth Israel Deaconess Medical Center	93.866	7P60AG008812-15	11,616
Columbia University	93.866	5P01AG023028-03	(25,452)
Harvard School of Public Health	93.866	5P30AG024409-03	14,396
Hebrew Rehabilitation Center	93.866	5P01AG004390-23	141,381
Massachusetts General Hospital	93.866	Various	541,759
Massachusetts Institute of Technology	93.866	Various	11,485
University of California, Los Angeles	93.866	Various	19,496
University of California, San Diego	93.866	Various	42,941
University of Connecticut Health Center	93.866	1R01AG022092-02	168,963
Massachusetts Eye and Ear Infirmary	93.867	1R01EY015473-01-A1	239,554
Columbia University	93.879	5R01LM006594-02	(4,660)
Bristol-Myers Squibb Company	93.000	Various	7,569
Cytoc Corporation	93.000	Various	233
Duke Clinical Research Institute	93.000	N01HV98177	64,407
George Washington University	93.000	HHSP23320045013	21,504
Michigan State University	93.000	615889BW	11,099
National Multiple Sclerosis Society	93.000	RG2779-C-4	1,596
New England Research Institute, Inc.	93.000	N01HC045207	1,238
Strang Cancer Prevention Center	93.000	N01CN-95015	303,067
University of Alabama	93.000	N01HV58198	89,612
University of California, San Francisco	93.000	Various	328,443
Wake Forest University	93.000	N01WH56495	64,796
Washington University	93.000	PO NO. 29955O	(294)
Subtotal - National Institutes of Health			<u>32,966,780</u>

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

The Brigham and Women's Hospital, Inc.
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

	Federal CFDA Number	Pass-Through Number	Total Federal Expenditures
Research and Development Passed Through Other Organizations (cont.)			
Other Department of Health and Human Services			
Agency for Health Care Policy and Research			
Abt Associates, Inc.	93.226	Various	\$ 139,381
Boston Medical Center	93.226	5R01HS013912-03	1,451
Harvard Pilgrim Health Care	93.226	2U18HS010391-05	3,433
Harvard School of Public Health	93.226	5U18HS011886-03	495
Massachusetts eHealth Collaborative	93.226	Various	333,978
Massachusetts General Hospital	93.226	Various	135,204
Regenstrief Institute, Inc.	93.226	Various	84,215
Taconic IPA	93.226	HS-04-011	(651)
University of California	93.226	1P01HS010771-03	1,499
University of California, San Francisco	93.226	1P01HS010856-04	(1,112)
University of Chicago	93.226	Various	752
University of Massachusetts Medical Center	93.226	Various	20,263
Centers for Disease Control			
Harvard Pilgrim Health Care	93.061	1P01CD000260-01	331,107
Harvard School of Public Health	93.283	CDC200200108007	100,476
Health Resources and Services Administration			
University of Massachusetts, Worcester	93.145	5H4AHA00050-03-0	25,270
Harvard Pilgrim Health Care	93.266	5U18HS011843-03	(14,257)
Department of Public Health	93.889	1U3RHS07555-01-00	167,235
Harvard Medical School	93.969	Various	(14,446)
Office of the Secretary			
Children's Hospital of Boston	93.995	5APHPA002033-04-00	171
Subtotal - Other Department of Health and Human Services			<u>1,314,464</u>
U.S. Army Research Medical Command			
Brentwood Biomedical Research Institute	12.420	Various	49,544
Dana Farber Cancer Institute	12.420	Various	110,411
Emory University	12.420	DAMD17-03-2-0033	65,743
Energid	12.420	W81XWH-05-C0159	139,674
Massachusetts General Hospital	12.420	Various	493,548
SAIC-Frederick, Inc.	12.420	25XS102A	185,544
University of Michigan	12.420	Various	699,481
Subtotal - U.S. Army Research Medical Command			<u>1,743,945</u>
Department of the Air Force, Material Command			
University of Pennsylvania	12.800	F49620-00-1-0266	(11,331)
Subtotal Department of the Air Force, Material Command			<u>(11,331)</u>
Defense Advanced Research Project Agency/Space and Naval Welfare Systems Command			
Adlyfe, Inc.	12.000	N66001-03-C-8031-C-0	40,337
Subtotal - Defense Advanced Research Project Agency/Space and Naval Welfare Systems Command			<u>40,337</u>
Department of Energy			
Harvard Medical School	81.049	DE-FG02-02ER63445	426,993
Subtotal - Department of Energy			<u>426,993</u>
National Aeronautics and Space Administration			
National Space Biomedical Research Institute	43.001	Various	1,299,301
Subtotal - National Aeronautics and Space Administration			<u>1,299,301</u>
Department of Agriculture			
Washington State University	10.200	2005-37610-16497	(1,608)
Massachusetts Department of Public Health	10.557	Various	(2,312)
Subtotal - Department of Agriculture			<u>(3,920)</u>

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

The Brigham and Women's Hospital, Inc.
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

	Federal CFDA Number	Pass-Through Number	Total Federal Expenditures
Research and Development Passed Through Other Organizations (cont.)			
Environmental Protection Agency			
Harvard School of Public Health	66.000	R 82943701-1	\$ 345
Subtotal - Environmental Protection Agency			<u>345</u>
National Science Foundation			
Johns Hopkins University	47.070	Various	63,459
University of California, Berkeley	47.076	SA4892-10801	39,101
Subtotal - National Science Foundation			<u>102,560</u>
Total Research and Development Pass-Through Programs			<u>37,879,474</u>
Total Research and Development			<u>264,231,854</u>
RESEARCH TRAINING			
Research Training Direct Programs			
Department of Health and Human Services			
National Institutes of Health			
Biological Response to Environmental Health Hazards	93.113		5,967
Human Genome Research	93.172		158,162
Research Related to Deafness and Communication Disorders	93.173		31,760
Research and Training in Complementary and Alternative Medicine	93.213		2,974
National Center on Sleep Disorders Research	93.233		533,441
Alcohol Research Career Development Awards for Scientists and Clinicians	93.271		126,556
Drug Abuse and Addiction Research Programs	93.279		16,422
Mental Health Research Career/Scientist Development Awards	93.281		253,488
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		407,026
Biomedical Research Technology	93.371		601,001
National Center for Research Resources	93.389		289,550
Cancer Research Manpower	93.398		1,940,032
Heart and Vascular Diseases Research	93.837		3,020,965
Lung Diseases Research	93.838		1,428,625
Blood Diseases and Resources Research	93.839		117,015
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		1,158,513
Diabetes, Endocrinology and Metabolism Research	93.847		815,801
Digestive Diseases and Nutrition Research	93.848		516,749
Kidney Diseases, Urology and Hematology Research	93.849		1,872,105
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		1,195,049
Allergy, Immunology and Transplantation Research	93.855		2,138,983
Microbiology and Infectious Diseases Research	93.856		19,834
Biomedical Research and Research Training	93.859		568,122
Population Research	93.864		84,517
Child Health and Human Development Extramural Programs	93.865		827,861
Aging Research	93.866		1,224,573
Vision Research	93.867		43,229
International Research and Research Training	93.989		436,864
Subtotal - National Institutes of Health			<u>19,835,184</u>
Other Department of Health and Human Services			
Agency for Health Care Policy and Research			
Research Health Care Costs, Quality and Outcomes	93.226		256,534
Administration for Children and Families			
Refugee and Entrant Assistance - Discretionary Grants	93.576		23,671
Subtotal - Other Department of Health and Human Services			<u>280,205</u>
Department of Defense			
Military Medical Research and Development	12.420		286,521
Subtotal - Department of Defense			<u>286,521</u>
Total Research Training Direct Programs			<u>20,401,910</u>

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

The Brigham and Women's Hospital, Inc.
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

	Federal CFDA Number	Pass-Through Number	Total Federal Expenditures
Research Training Passed Through Other Organizations			
Department of Health and Human Services			
National Institutes of Health			
Boston Medical Center	93.113	5K23ES013173-03	\$ 10,894
Harvard Medical School	93.389	5K30RR022292-08	126,884
Dana Farber Cancer Institute	93.393	5T32CA009361-25	20,237
Northwestern University	93.398	1K07CA109361-02	14,121
Alpha One Foundation	93.837	1K08HL080242-01	67,937
Harvard Medical School	93.837	Various	4,515
Harvard School of Public Health	93.837	5K25HL081275-02	14,240
Children's Hospital of Boston	93.838	5K23HL074202-03	2,101
Harvard Medical School	93.846	5T32AR007098-31	97,758
Boston Medical Center	93.848	5K08DK070706-02	10,586
Children's Hospital of Boston	93.848	5K08DK064256-04	11,390
Massachusetts General Hospital	93.859	5T32GM007592-27	8
University of California, San Francisco	93.864	K12HD000849	1,702
University of Pennsylvania	93.865	5T32HD040135-05	68,456
Beth Israel Deaconess Medical Center	93.866	5T32AG023480-03	(10,342)
Harvard Medical School	93.866	Various	31,121
Massachusetts Institute of Technology	93.879	5T15LM007092-15	<u>34,618</u>
Subtotal - National Institutes of Health			<u>506,226</u>
Other Department of Health and Human Services			
Harvard Medical School	93.157	D34HP004083-03	<u>(26,965)</u>
Subtotal - Other Department of Health and Human Services			<u>(26,965)</u>
Total Research Training Pass-Through Programs			<u>479,261</u>
Total Research Training			<u>20,881,171</u>
Total Research and Development and Research Training Cluster			<u>285,113,025</u>
OTHER PROGRAMS			
Passed Through the Commonwealth of Massachusetts			
Department of Agriculture			
Food and Nutrition Service			
Special Supplemental Nutrition Program for Women, Infants and Children Grant	10.557	INTF3502M03700915066	<u>98,373</u>
Subtotal - Department of Agriculture			<u>98,373</u>
Department of Health and Human Services			
Health Resources and Services Administration			
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	SCDPH371252202200000	27,082
Maternal and Child Health Services Block Grant to the States	93.994	SCDPH331058020070000	25,076
Centers for Disease Control			
Childhood Immunization	93.268	INTF3502M03700915066	<u>1,601</u>
Subtotal - Department of Health and Human Services			<u>53,759</u>
Total Other Programs			<u>152,132</u>
Total Federal Expenditures			<u>\$ 285,265,157</u>

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

The Brigham and Women's Hospital, Inc.
Notes to Schedule of Expenditures of Federal Awards
September 30, 2007

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of The Brigham and Women's Hospital, Inc. (the "Hospital") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements. Negative amounts represent adjustments or credits to amounts reported as expenditures in prior years. Pass-through numbers are provided where available. In some instances, expenditures listed from each pass-through entity consist of more than one award.

2. Facilities and Administrative Costs

The predetermined facilities and administrative cost rates were based on financial information submitted utilizing the method prescribed in OASC-3. The Hospital negotiated and was awarded a predetermined facilities and administrative cost rate for the period October 1, 2005 through September 30, 2008 of 75% for on-site research and 26% for off-site research. Fringe benefit rates are fixed and range between 24.0% and 34.0% for the period October 1, 2006 through September 30, 2007.

3. Subrecipients

During fiscal 2007, the Hospital provided to subrecipients in the Research and Development and Research Training Program \$35,980,603 as follows. These amounts are included in the accompanying Schedule of Expenditures of Federal Awards:

Acoustic Medsystems, Inc.	\$ 232,565
Albert Einstein College of Medicine	263,816
American College of Radiology Associates	10,719
American Society on Aging	40,000
Baylor College of Medicine, Inc.	451,887
Beth Israel Deaconess	2,348,093
Boston College	20,167
Boston Medical Center Corporation	85,625
Boston University	673,338
Boston V A Research Institute, Inc.	4,000
Buck Institute	56,869
C B R Institute for Biomedical Research, Inc.	397,284
Cardiovascular Engineering, Inc.	60,225
Carnegie Mellon University	26,063
Case Western Reserve University	155,447
Centre Additional Mental Health Division	114,799
Children's Hospital Boston	1,731,178
Chiron S.R.L.	37,606
Cincinnati Children's Hospital Medical Center	8,187
Connecticut Children's Medical Center	207,967
Dana Farber Cancer Institute, Inc.	2,305,880
Dartmouth College	525,774
Duke University	13,875
Emory University	19,750

The Brigham and Women's Hospital, Inc.
Notes to Schedule of Expenditures of Federal Awards
September 30, 2007

Fallon Clinic, Inc.	\$ 252,014
Forsyth Institute	15,974
Fred Hutchinson Cancer Research Center	67,707
Fundacion Para El Desarrallo, Hospital Nacional De Ninos	235,883
General Electric Company	411,533
Georgia Tech Research Corporation	271,424
Harvard Pilgrim Health Care, Inc.	67,146
Harvard University	3,689,622
Harvard Vanguard Medical Associates, Inc.	75,918
Health Research, Inc.	95,861
Hebrew University Jerusalem	103,873
Henry M. Jackson Foundation	130,517
Hospital for Sick Children	33,923
Human Research Protection Office	1,200
Institute for Healthcare Improvement	10,968
Instituto Nacional de Salu BBVA Bancomer	275,184
Isomics, Inc.	403,117
J S I Research & Training Institute	95,149
Joan and Weill Medical College of Cornell University	94,572
Johannes Gutenberg University Mainz	61,932
Johns Hopkins University	257,997
Joslin Diabetes Center, Inc.	948,595
Karolinska Institute	62,030
Kitware, Inc.	517,181
Magee Women's Hospital	1,028,981
MA-Share C/O Mass Health Data Consortium	503,811
Massachusetts Eye and Ear Infirmary	10,006
Massachusetts General Hospital	5,762,550
Massachusetts Institute of Technology	926,576
Max Planck Institute	84,752
McLean Hospital, Inc.	714
Medical College of Georgia Research Institute	324,037
Medical University of South Carolina	51,695
Miriam Hospital	7,045
Mirtech, Inc.	70,910
National Council of the Aging	3,000
National Jewish Medical Research Center	55,937
Newton Wellesley Hospital	49,044
The Netherlands Cancer Institute	42,997
Ohio State University Research Foundation	32,189
Orebro University Hospital	101,410
Oregon Health and Science University	16,276
Planned Parenthood of Houston and Southeast Texas	42,494
Queen Mary University of London	59,772
Rensselaer Polytechnic Institute	117,304
Research Foundation of State University of New York	131,110
South African Medical Research Council	144,900
Southwest Oncology Group	87,493
Stanford University	339,932
Strang Cancer Prevention Center	222,532
Thomas Jefferson University	20,051

The Brigham and Women's Hospital, Inc.
Notes to Schedule of Expenditures of Federal Awards
September 30, 2007

Tufts University	\$	403,189
University of Arizona		46,757
University of Birmingham		44,909
University of California		1,632,015
University of Cambridge		360,688
University of Colorado Health Sciences		544,581
University of Connecticut Health Center		100,163
University of Delaware		31,724
University of Iowa		59,080
University of Kansas		183,117
University of Maryland		401,984
University of Massachusetts		239,416
University of Michigan		174,850
University of Minnesota		308,254
University of Mississippi Medical Center		4,574
University of New Hampshire		265,332
University of North Carolina Chapel Hill		387,157
University of Pennsylvania		802,296
University of Pittsburgh		146,131
University of Rochester		247,096
University of Southern California		217,285
University of Utah		351,529
University of Victoria		35,000
University of Virginia		2,889
University of Washington		77,044
University of Wisconsin-Madison		70,220
University Texas Southwestern Medical Center		76,490
Wake Forest University School of Medicine		217,158
Washington University		60,982
Whitehead Institute		65,010
Wright State University Libraries		15,680
Yale University		200,051
		<hr/>
Grand Total	\$	<u>35,980,603</u>

Part II

Reports on Compliance and Internal Controls

Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees of
The Brigham and Women's Hospital, Inc.

We have audited the financial statements of The Brigham and Women's Hospital, Inc. as of and for the year ended September 30, 2007, and have issued our report thereon dated December 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered The Brigham and Women's Hospital, Inc.'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 Brigham and Women's Hospital, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Brigham and Women's Hospital, Inc.'s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of The Brigham and Women's Hospital, Inc. in a separate letter dated December 19, 2007.

This report is intended solely for the information and use of The Brigham and Women's Hospital, Inc.'s Board of Trustees, management, 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 "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

December 20, 2007

**Report of Independent Auditors on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

To the Board of Trustees of
The Brigham and Women's Hospital, Inc.

Compliance

We have audited the compliance of The Brigham and Women's Hospital, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The Brigham and Women's Hospital, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of The Brigham and Women's Hospital, Inc.'s management. Our responsibility is to express an opinion on The Brigham and Women's Hospital, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Brigham and Women's Hospital, Inc.'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 Brigham and Women's Hospital, Inc.'s compliance with those requirements.

In our opinion, The Brigham and Women's Hospital, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control over Compliance

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

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

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

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

This report is intended solely for the information and use of The Brigham and Women's Hospital, Inc.'s Board of Trustees, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

The logo for PricewaterhouseCoopers LLP, written in a cursive, handwritten style.

December 20, 2007

Part III
Findings

The Brigham and Women's Hospital, Inc.
Schedule of Findings and Questioned Costs
Year Ended September 30, 2007

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting

Material weakness(es) identified? ___ yes X no

Significant deficiency(ies) identified that are not
 Considered to be material weaknesses? ___ yes X none reported

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards

Internal control over major programs

Material weakness(es) identified? ___ yes X no

Significant deficiency(ies) identified that are not
 considered to be material weaknesses? ___ yes X none reported

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

Any audit findings disclosed that are required
 to be reported in accordance with section 510(a)
 of OMB Circular A-133? ___ yes X no

Identification of Major Programs

Name of Federal Program or Cluster

Various CFDA numbers Research and Development and
Research Training 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

II. Financial Statement Findings

There were no findings noted in the current year.

III. Federal Award Findings and Questioned Costs

There were no findings or questioned costs noted in the current year.

The Brigham and Women's Hospital, Inc.

Summary Schedule of the Status of Prior Audit Findings

Year Ended September 30, 2007

Finding 06-01 Equipment

Criteria

OMB Circular A-110 Section 34 (f)(3) requires organizations to perform a physical inventory of federally funded equipment at least once every two years and reconcile the results to the equipment records.

Condition

During the fiscal year, the Hospital began the required bi-annual equipment inventory procedures. However, at the time of our fieldwork, the Hospital's physical inventory of federal equipment was only approximately 29% complete. This condition applies for all awards within the Research and Development and Research Training cluster, as well as other programs with federally funded equipment.

Cause

The Hospital is in the process of converting its equipment records over to the electronic system used at other hospitals within Partners HealthCare System. This process was not completed within the timeframe necessary to meet the bi-annual inventory requirement.

Effect

The Hospital was not in full compliance with the bi-annual inventory requirement.

Status

The corrective action plan submitted with the 2006 A-133 report was implemented. The Hospital completed the remaining 71% of the equipment inventory in fiscal 2007.

Finding 06-02 Grant-Specific Exceptions

Award Name: Healing of Segmental Defects in Bone by Gene Transfer

Grantor: National Institutes of Health

Award Period: 8/1/03-7/31/08

CFDA Number: 93.846

Criteria

With respect to salaries charged to federal grants, the Hospital is subject to compliance with the requirements set forth by OASC-3 Hospital Cost Principles Section IX and OMB Circular A-110 Section 21.

Condition

PwC's auditing procedures on 2 of 55 effort reports selected for testing resulted in the following exceptions, all which related to the same award noted above:

- The PI had not signed 3 out of 4 effort certification reports due during fiscal 2006;
- The PI's effort on the grant was charged at 30% during the fiscal year, but his actual level of effort on the grant was approximately 40%;
- Another individual, working in the same department with this PI, had salary expense for approximately \$26,000 charged to the grant based on the salary allocation assigned within the Hospital's payroll system. However, this person did not perform work on the grant, and her time should have instead been charged to other grants of this PI;
- The PI admittedly was not adequately familiar with the Hospital's policies or federal rules and regulations.

The Brigham and Women's Hospital, Inc.

Summary Schedule of the Status of Prior Audit Findings

Year Ended September 30, 2007

Cause

The PI was not familiar with the Hospital's policies or federal rules and regulations for recipients of federal funds. Additionally, the salary allocation for the individual referenced above was not entered correctly into the Hospital's timekeeping software, and was not identified by the Hospital, as an exception through the regular grant review process.

Effect

In this instance, the Hospital was not in compliance both with federal regulations and Hospital policies surrounding the allowability and allocability of salary expense; and certifications of effort for this award. This PI was identified by the Hospital prior to our audit as having additional training and awareness needs, and accordingly, the Hospital has initiated an action plan.

Status

The corrective action plan submitted with the 2006 A-133 report was implemented. As stated within the corrective action plan, the Hospital worked with the principal investigator and his department to ensure they are aware of, and in compliance, with federal regulations. A full time grant administrator was hired to work exclusively within this department. The principal investigator and his staff have been re-educated and trained on all appropriate hospital policies and federal regulations. The educational and compliance plan have been enforced and monitored through continuous meetings with the principal investigator, grant administrator and Chief. The exceptions noted in the fiscal 2006 report were corrected.

Finding 06-03 Travel Expense

Award Name: Growth Factors and Prostate Cancer Risk

Grantor: National Cancer Institute

Award Period: 2/1/02-5/31/07

CFDA #: 93.393

Criteria

With respect to travel, the Hospital is subject to compliance with the requirements set forth by OASC-3 Hospital Cost Principles Section IX and OMB Circular A-110 Section 21.

Condition

Of 4 expense reports tested, PwC noted one which included a \$700 overcharge to the federal award due to an error in the traveler's expense report. The error represents an incorrect dollar amount documented within the expense report compared to the actual expense amount per the supporting receipt. Management corrected this error once PwC brought it to our attention. In 2006, there were approximately \$1.7 million of total travel costs charged to federal awards at the Hospital representing approximately 0.6% of total Research and Development and Research Training cluster expenditures of \$302 million.

Cause

The review of this expense report by the Hospital and Accounts Payable departments before payment did not detect an error included within the expense report. The error was not identified by this manual internal control.

Effect

The award was overcharged by \$700, and the Hospital was not in compliance with the allowability of the associated charges per federal regulations, or institutional policies and procedures.

The Brigham and Women's Hospital, Inc.

Summary Schedule of the Status of Prior Audit Findings

Year Ended September 30, 2007

Status

The corrective action plan submitted with the 2006 A-133 report was implemented. As stated in the corrective action plan, Partners Research Management continues to remind departments and the central travel office of the importance of pre-screening and review of travel expense reports. The exception noted in the fiscal 2006 report was corrected.

Finding 06-04 Patient Care Expense

Award Name: Contemporary Screening for the Detection of Lung Cancer

Grantor: National Cancer Institute

Award Period: 1/1/04-12/31/07

CFDA #: 93.394

Subcontract from American College of Radiology Imaging Network

Pass-Through No. 5U01CA080098

Criteria

With respect to patient care, the Hospital is subject to compliance with the requirements set forth by OASC-3 Hospital Cost Principles Section IX and OMB Circular A-110 Section 21.

Condition

Of the 104 direct cost charges tested during the audit, PwC noted one expense for patient care which included an overcharge of approximately \$26,888 to the federal award. Management corrected this error once PwC brought it to our attention. In 2006, there were approximately \$2.2 million of total patient care costs charged to federal awards at the Hospital representing approximately 0.7% of total Research and Development and Research Training cluster expenditures of \$302 million.

Cause

A cost transfer was processed by the Hospital to charge patient care expenses to the appropriate grant cost centers. The journal entry involved the transfer of 8 individual patient care costs totaling \$26,888 to the grant although the charges did not relate to the grant. This error occurred as a result of an incorrect cost center documented on the journal entry form, which was not detected by the grant manager's manual review.

Effect

The award was overcharged by \$26,888, and the Hospital was not in compliance with the allowability and allocability of these charges to federal awards, or institutional policies and procedures.

Status

The corrective action plan submitted with the 2006 A-133 report was implemented. As stated in the corrective action plan, Partners Research Management continues to emphasize the need for diligence when reviewing journal entries to ensure full compliance with the cost transfer policy. The hospital also implemented an enhanced cost transfer policy in fiscal 2007. The exception noted in the fiscal 2006 report was corrected.