

The General Hospital Corporation

**Report on Federal Awards in
Accordance with OMB Circular A-133
September 30, 2007
EIN 042697983**

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Part I
Financial Statements

Report of Independent Auditors

To the Board of Trustees of
The General Hospital Corporation

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 General Hospital Corporation 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 General Hospital Corporation'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 General Hospital Corporation'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 General Hospital Corporation
Balance Sheets
September 30, 2007 and 2006

<i>(dollars in thousands)</i>	2007	2006
Assets		
Current assets		
Cash and equivalents	\$ 12,075	\$ 7,441
Investments	2,412	861
Current portion of investments limited as to use	69,835	70,503
Patient accounts receivable, net of allowance for bad debts: 2007 - \$20,771; 2006 - \$16,617	221,344	193,037
Research grants receivable	52,167	38,934
Other current assets	57,292	43,439
Receivable for settlements with third party payers	<u>7,312</u>	<u>20,843</u>
Total current assets	422,437	375,058
Investments limited as to use, less current portion	48,620	38,911
Long-term investments	10,558	83,498
Pledges receivable, net, less current portion	28,850	22,446
Interest in the net assets of The Massachusetts General Hospital	687,160	560,883
Property and equipment, net	920,920	852,127
Other assets	<u>1,338</u>	<u>1,357</u>
Total assets	<u>\$ 2,119,883</u>	<u>\$ 1,934,280</u>
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term obligations	\$ 22,615	\$ 21,339
Accounts payable and accrued expenses	35,248	32,869
Accrued compensation and benefits	117,886	103,772
Current portion of accrual for settlements with third-party payers	16,101	18,357
Unexpended funds on research grants	67,685	68,374
Due to affiliates	<u>37,400</u>	<u>30,554</u>
Total current liabilities	296,935	275,265
Other liabilities		
Accrual for settlements with third-party payers, less current portion	1,982	1,745
Accrued professional liability	16,199	16,849
Accrued employee benefits	86,313	77,998
Accrued other	<u>37,371</u>	<u>39,730</u>
	141,865	136,322
Long-term obligations, less current portion	<u>327,547</u>	<u>342,269</u>
Total liabilities	<u>766,347</u>	<u>753,856</u>
Commitments and contingencies		
Net assets		
Unrestricted	602,793	499,362
Temporarily restricted	602,895	542,577
Permanently restricted	<u>147,848</u>	<u>138,485</u>
Total net assets	1,353,536	1,180,424
Total liabilities and net assets	<u>\$ 2,119,883</u>	<u>\$ 1,934,280</u>

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

The General Hospital Corporation
Statements of Operations
Years Ended September 30, 2007 and 2006

<i>(dollars in thousands)</i>	2007	2006
Operating revenue		
Net patient service revenue	\$ 1,627,519	\$ 1,486,702
Direct academic and research revenue	448,226	430,459
Indirect academic and research revenue	147,629	147,254
Other revenue	80,250	83,699
Total operating revenue	<u>2,303,624</u>	<u>2,148,114</u>
Operating expenses		
Employee compensation and benefits	901,540	794,664
Supplies and other expenses	728,267	671,736
Direct academic and research expenses	448,226	430,459
Depreciation and amortization	98,345	94,320
Provision for bad debts	33,295	28,947
Interest	18,795	19,538
Total operating expenses	<u>2,228,468</u>	<u>2,039,664</u>
Income from operations	<u>75,156</u>	<u>108,450</u>
Nonoperating gains (expenses)		
Income from investments	3,475	304
Gifts and other	276,026	186,163
Total nonoperating gains, net	<u>279,501</u>	<u>186,467</u>
Excess of revenues over expenses	354,657	294,917
Other changes in net assets		
Funds utilized for property and equipment	16,718	14,886
Transfers to affiliates, net	(267,956)	(1,479,522)
Change in funded status of defined benefit plan	12	-
Cumulative effect of accounting changes	-	23,002
Increase (decrease) in unrestricted net assets	<u>\$ 103,431</u>	<u>\$ (1,146,717)</u>

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

The General Hospital Corporation
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>\$ 1,646,079</u>	<u>\$ 490,723</u>	<u>\$ 130,652</u>	<u>\$ 2,267,454</u>
Increases (decreases)				
Income from operations	108,450	-	-	108,450
Income from investments	304	34,008	-	34,312
Gifts and other	186,163	17,846	7,833	211,842
Funds utilized for property and equipment	14,886	-	-	14,886
Transfers to affiliates, net	(1,479,522)	-	-	(1,479,522)
Cumulative effect of accounting changes	23,002	-	-	23,002
Change in net assets	<u>(1,146,717)</u>	<u>51,854</u>	<u>7,833</u>	<u>(1,087,030)</u>
Net assets at September 30, 2006	<u>499,362</u>	<u>542,577</u>	<u>138,485</u>	<u>1,180,424</u>
Increases (decreases)				
Income from operations	75,156	-	-	75,156
Income from investments	3,475	85,448	-	88,923
Gifts and other	276,026	(25,295)	9,363	260,094
Funds utilized for property and equipment	16,718	-	-	16,718
Transfers to affiliates, net	(267,956)	(18,081)	-	(286,037)
Other	-	18,246	-	18,246
Change in funded status of defined benefit plan	12	-	-	12
Change in net assets	<u>103,431</u>	<u>60,318</u>	<u>9,363</u>	<u>173,112</u>
Net assets at September 30, 2007	<u>\$ 602,793</u>	<u>\$ 602,895</u>	<u>\$ 147,848</u>	<u>\$ 1,353,536</u>

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

The General Hospital Corporation
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	\$ 173,112	\$ (1,087,030)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Cumulative effect of accounting changes	-	(23,002)
Change in funded status of defined benefit plan	(12)	-
Depreciation and amortization	98,345	94,320
Provision for bad debts	33,295	28,947
Loss on retirement of property and equipment	726	-
Gain on royalty transactions, net	(206,000)	(186,000)
Net realized and change in unrealized appreciation on investments	(104,562)	(49,473)
Change in interest in the net assets of The Massachusetts General Hospital	(37,395)	7,118
Transfers to affiliates, net	286,037	1,479,522
Restricted contributions	(16,718)	(17,574)
Increase (decrease) in cash resulting from a change in		
Patient accounts receivable	(61,602)	(47,240)
Research grants receivable	(13,233)	19,841
Other current assets	(3,818)	(9,387)
Pledges receivable	(16,439)	(12,108)
Accounts payable and accrued expenses	2,379	(33,618)
Accrued compensation and benefits	13,694	9,690
Settlements with third-party payers	4,902	(10,168)
Unexpended funds on research grants	(689)	(3,665)
Accrued employee benefits and other	5,738	3,146
Due to affiliates	6,846	9,036
Net cash provided by operating activities	<u>164,606</u>	<u>172,355</u>
Cash flows from investing activities		
Purchase of property and equipment	(167,800)	(147,299)
Proceeds from royalty transactions, net	206,000	186,000
Purchase of investments	(15,342)	(38,647)
Proceeds from sales of investments	18,644	14,269
Increase in other assets	(45)	(52)
Net cash provided by investing activities	<u>41,457</u>	<u>14,271</u>
Cash flows from financing activities		
Payments on long-term obligations	(14,008)	(19,666)
Proceeds from long-term obligations	562	6,919
Transfers to affiliates, net	(204,701)	(222,689)
Restricted contributions	16,718	17,574
Net cash used for financing activities	<u>(201,429)</u>	<u>(217,862)</u>
Net increase (decrease) in cash and equivalents	4,634	(31,236)
Cash and equivalents at beginning of year	7,441	38,677
Cash and equivalents at end of year	<u>\$ 12,075</u>	<u>\$ 7,441</u>

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

The General Hospital Corporation

Notes to Financial Statements

September 30, 2007 and 2006

(dollars in thousands)

1. **Organization and Community Benefit Commitments**

The General Hospital Corporation (General) 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, the General 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. The Massachusetts General Hospital (MGH) is the sole member of the General, McLean HealthCare, Inc., Massachusetts General Physicians Organization, Inc. (MGPO), The MGH Institute of Health Professions, Inc., (IHP) and The MGH Health Services Corporation.

Partners HealthCare System, Inc. (PHS) is the sole member of MGH, The Brigham and Women's/Faulkner Hospitals, Inc. (BW/F), 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 the members of Partners Community HealthCare, Inc. (PCHI). PHS, together with all of its affiliates, is referred to as "Partners HealthCare."

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

Community Benefit

The General collaborates with community and hospital partners to build and sustain healthier communities, and to enhance the Hospital's responsiveness to patients and community members from diverse cultural and socioeconomic backgrounds. As such, the General 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. The General has a community benefit planning and service delivery structure and has filed its report separately with the Attorney General.

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

Uncompensated Care

The General 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 the General receives either partial or no reimbursement for healthcare services provided, is summarized as follows:

The General Hospital Corporation

Notes to Financial Statements

September 30, 2007 and 2006

(dollars in thousands)

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. The General 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, the General's share of uncompensated care funding covered 67% of the cost of free care provided in 2007 and 51% 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, the General's share of the statewide shortfall is estimated at 9%. 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 the General do not cover the cost of services provided. In aggregate, reimbursement from Medicaid covered 73% of the cost of services provided in 2007 and 67% of the cost in 2006.

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. The General's share of this additional funding was \$5,717 in fiscal year 2007.

The General Hospital Corporation
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

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 the General, declines in reimbursement have included a 15% decrease in payments for indirect medical education and a 23% shift of Medicare costs to lower-reimbursed outpatient care.

Consequently, Medicare payments to the General also do not cover the cost of services provided. In aggregate, reimbursement from Medicare covered 79% of the cost of services provided in 2007 and 83% of the cost in 2006.

For Free Care, Medicaid and Medicare, the total cost of services provided by the General exceeds the net reimbursement received under these programs by \$195,058 and \$178,758 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 \$19,080 and \$17,705 in 2007 and 2006, respectively	\$ 73,989	\$ 77,961
Medicaid	176,600	160,553
Medicare	<u>511,612</u>	<u>462,529</u>
	<u>\$ 762,201</u>	<u>\$ 701,043</u>
Net reimbursement		
Free Care	\$ 36,723	\$ 30,629
Medicaid	128,120	108,373
Medicare	<u>402,300</u>	<u>383,283</u>
	<u>\$ 567,143</u>	<u>\$ 522,285</u>
Cost of services in excess of reimbursement		
Free Care	\$ 37,266	\$ 47,332
Medicaid	48,480	52,180
Medicare	<u>109,312</u>	<u>79,246</u>
Net uncompensated care	<u>\$ 195,058</u>	<u>\$ 178,758</u>

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 are deemed to be uncollectible. The estimated cost of providing these services was approximately \$11,220 and \$9,553 for 2007 and 2006, respectively.

The General Hospital Corporation

Notes to Financial Statements

September 30, 2007 and 2006

(dollars in thousands)

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. The General 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, interest in the net assets of MGH, patient accounts receivable, research grants receivable, pledges 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

The General 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 on 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.

A write-down in the cost basis of securities is recorded when the decline in fair value of certain investments below costs 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.

The General Hospital Corporation

Notes to Financial Statements

September 30, 2007 and 2006

(dollars in thousands)

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. Certain investments corresponding to deferred compensation are accounted for such that all income and appreciation (depreciation) is recorded as a direct addition (reduction) to the asset balance and corresponding liability balance.

Patient Accounts Receivable

The General 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

The General 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.

Interest in the Net Assets of The Massachusetts General Hospital

MGH holds investment assets for the benefit of the General. Since MGH is the sole member of the General, these organizations are financially interrelated. Accordingly, the General recognizes its interest in the net assets of MGH and adjusts that interest for its share of the changes in the net assets of MGH. Changes due to gifts, investment income (including realized gains and losses) and unrealized appreciation and depreciation are recognized in nonoperating activity.

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 General Hospital Corporation

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. The General 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. The General reduces these liabilities when the related obligations are settled.

Other Assets

Other assets consist of long-term receivables and deferred financing costs. Deferred financing costs are amortized over the terms of the related obligations. 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 \$48,221 and \$44,183 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

The General 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 the General 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 the General. See Note 13 for further information on the composition of restricted net assets.

The General Hospital Corporation

Notes to Financial Statements

September 30, 2007 and 2006

(dollars in thousands)

Gifts and Grants

Unconditional promises to give cash and other assets to the General 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. The General 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 the General 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 plan.

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, the General has elected to follow the prescribed guidance.

Prior to fiscal 2006, the General 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 \$49,016 and a decrease in accounts payable and accrued expenses of \$23,891. Adjustment of other differences resulted in a decrease in property and equipment of \$14,375 and other balance sheet accounts by \$6,462. The impact of these adjustments resulted in a net increase of \$52,070 in unrestricted net assets. For the years ended September 30, 2007 and 2006, adjustments to prior year estimates resulted in an increase (decrease) to income from operations of (\$869) and \$28,743, respectively.

The General Hospital Corporation

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Net Patient Service Revenue

The General 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 the General 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

The General 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. The General 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 royalty income, cafeteria sales, rental income, parking income, and certain outpatient pharmacy income.

3. Investment Transfer

Effective October 1, 2005, the Board of Trustees of the General approved the permanent transfer of substantially all unrestricted investments to its parent, MGH. As a result, substantially all unrestricted investments, related investment income and gifts and expenses have been eliminated on the General'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 the General. The General 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 \$1,026,668.

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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	\$ 6,185	\$ -	\$ -	\$ 6,185
Equities	32,491	10,172	-	42,663
U.S. Government, domestic and foreign fixed income securities	4,182	386	(81)	4,487
Private partnerships and other	27,852	16,292	(105)	44,039
Accruals, net	(2)	-	-	(2)
	<u>70,708</u>	<u>26,850</u>	<u>(186)</u>	<u>97,372</u>
Separately invested				
Invested cash equivalents	1,284	-	-	1,284
Equities	6,775	-	-	6,775
U.S. Government and domestic fixed income securities	23,587	-	-	23,587
Other	2,407	-	-	2,407
	<u>34,053</u>	<u>-</u>	<u>-</u>	<u>34,053</u>
	<u>\$ 104,761</u>	<u>\$ 26,850</u>	<u>\$ (186)</u>	<u>\$ 131,425</u>

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	Cost	September 30, 2006		Fair Value
		Gross Unrealized Appreciation	Gross Unrealized Depreciation	
Pooled investments				
Invested cash equivalents	\$ 14,456	\$ -	\$ -	\$ 14,456
Equities	58,817	5,948	(622)	64,143
U.S. Government, domestic and foreign fixed income securities	8,534	303	(113)	8,724
Private partnerships and other	69,576	13,583	(27)	83,132
Accruals, net	96	-	-	96
	<u>151,479</u>	<u>19,834</u>	<u>(762)</u>	<u>170,551</u>
Separately invested				
Invested cash equivalents	1,252	-	-	1,252
Equities	4,786	-	-	4,786
U.S. Government and domestic fixed income securities	16,323	-	-	16,323
Other	861	-	-	861
	<u>23,222</u>	<u>-</u>	<u>-</u>	<u>23,222</u>
	<u>\$ 174,701</u>	<u>\$ 19,834</u>	<u>\$ (762)</u>	<u>\$ 193,773</u>

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

	September 30,	
	2007	2006
Current assets		
Investments	\$ 2,412	\$ 861
Current portion of investments limited as to use	69,835	70,503
	<u>72,247</u>	<u>71,364</u>
Investments limited as to use, less current portion	48,620	38,911
Long-term investments	10,558	83,498
	<u>\$ 131,425</u>	<u>\$ 193,773</u>

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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	\$ -	\$ 28,497	\$ -	\$ 20,232
Externally limited funds				
Unexpended funds on research	67,685	-	68,374	-
Professional liability trust fund	-	20,123	-	18,679
Held by trustees under debt and other agreements	2,150	-	2,129	-
	<u>69,835</u>	<u>20,123</u>	<u>70,503</u>	<u>18,679</u>
	<u>\$ 69,835</u>	<u>\$ 48,620</u>	<u>\$ 70,503</u>	<u>\$ 38,911</u>

The General Hospital Corporation
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(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	\$ 1,752	\$ 1,396
Endowment income distributions, net of reinvested gains	1,674	1,557
Net realized gains (losses) on investments		
Trading gains	1,294	2,460
Other-than-temporary impairment	(254)	(17)
Change in net unrealized appreciation on equity method investments, net of recoveries on endowment funds	<u>2,029</u>	<u>(871)</u>
Total investment activity included in excess of revenues over expenses	6,495	4,525
Change in net unrealized appreciation on marketable investments	<u>10</u>	<u>-</u>
Total unrestricted investment activity	<u>6,505</u>	<u>4,525</u>
Temporarily restricted		
Dividends and interest income	6,762	6,851
Endowment income distributions	(22,797)	(20,744)
Net realized gains (losses) on investments		
Trading gains	27,607	61,945
Other-than-temporary impairment	<u>(1,028)</u>	<u>(35)</u>
	<u>10,544</u>	<u>48,017</u>
Change in net unrealized appreciation on investments		
Equity method investments	74,914	(14,041)
Recoveries on endowment funds	<u>(10)</u>	<u>32</u>
	<u>74,904</u>	<u>(14,009)</u>
Total temporarily restricted investment activity	<u>85,448</u>	<u>34,008</u>
	<u>\$ 91,953</u>	<u>\$ 38,533</u>

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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	\$ 3,030	\$ 4,221
Investment income included in nonoperating gains (expenses) and reported in		
Income from investments	<u>3,465</u>	<u>304</u>
Total investment activity included in excess of revenues over expenses	<u>\$ 6,495</u>	<u>\$ 4,525</u>

5. Pledges Receivable

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 \$24,177 and \$14,142 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 4.1% 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	\$ 31,464	\$ 18,578
In one to five years	30,322	22,676
In more than five years	<u>5,203</u>	<u>4,861</u>
Total pledges receivable	66,989	46,115
Less: Unamortized discount	<u>4,781</u>	<u>4,020</u>
	62,208	42,095
Less: Allowance for uncollectibles	<u>9,181</u>	<u>5,507</u>
Net pledges receivable	<u>\$ 53,027</u>	<u>\$ 36,588</u>

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6. Property and Equipment

Property and equipment consists of the following:

	September 30,	
	2007	2006
Land and land improvements	\$ 3,785	\$ 3,702
Buildings and building improvements	1,091,760	1,143,812
Equipment	344,035	317,932
Construction in progress	92,416	48,274
	<u>1,531,996</u>	<u>1,513,720</u>
Accumulated depreciation	<u>(611,076)</u>	<u>(661,593)</u>
Property and equipment, net	<u>\$ 920,920</u>	<u>\$ 852,127</u>

Depreciation expense for the years ended September 30, 2007 and 2006 was \$98,281 and \$94,261, respectively. No interest was capitalized in 2007 or 2006.

For the years ended September 30, 2007 and 2006, fully depreciated assets with an original cost of \$148,797 and \$31,097, 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.

The General implemented FIN 47 at September 30, 2006 and recorded conditional asset retirement obligations of approximately \$24,551. These conditional asset retirement obligations relate to certain materials requiring specific remediation efforts. Upon implementation of FIN 47, the General recorded a \$22,951 reduction in unrestricted net assets which was recorded as a cumulative effect of a change in accounting principle.

The General Hospital Corporation
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(dollars in thousands)

7. Long-Term Obligations

Long-term obligations consist of the following:

	September 30,	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 2033	\$	311,485	\$ 318,660
Massachusetts Health and Educational Facilities Authority (Authority) Revenue Bonds			
MGH issue			
Series F, average interest rate of 6.25%, final maturity in 2012		35,771	41,556
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 2012		2,906	3,392
		<u>350,162</u>	<u>363,608</u>
Less current portion		<u>22,615</u>	<u>21,339</u>
	\$	<u>327,547</u>	\$ <u>342,269</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 The Brigham and Women's Hospital, Inc. (BWH) and 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 the General is collateralized by a lien on the unrestricted gross receipts of the General and MGH on a parity with their outstanding indebtedness.

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 the 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.

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The MGH Series F Revenue Bonds are collateralized by a lien on the unrestricted gross receipts of the General and MGH. The General is jointly and severally liable with MGH for the total amount of the Series F Revenue Bonds, portions of which have been recorded directly by MGH and Spaulding Rehabilitation Hospital (Spaulding). MGH was formerly the sole corporate member of Spaulding. At September 30, 2007, Spaulding was obligated for \$5,655 of the Series F Revenue Bonds.

The Authority Revenue Bond Agreements contain certain covenants, including a minimum debt service coverage ratio and limitations on additional indebtedness and asset transfers.

Aggregate maturities and payments of long-term obligations during the next five years are as follows: 2008 - \$22,615; 2009 - \$22,920; 2010 - \$24,206, 2011 - \$25,637 and 2012 - \$28,284.

The fair value of long-term obligations was approximately \$354,577 and \$369,367 as of September 30, 2007 and 2006, respectively. The fair value is estimated based on quoted market prices for the same or similar issues.

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

8. Commitments

Leases

The General has noncancelable operating leases for certain buildings and equipment including operating leases for certain office and research space between the General and Massachusetts Biomedical Research Corporation (MBRC). Minimum future lease commitments under noncancelable leases, including a total commitment of \$479,850 on the MBRC leases, for the next five years and thereafter are as follows:

	Operating Leases
2008	\$ 89,605
2009	86,933
2010	78,070
2011	71,317
2012	69,746
Thereafter	<u>577,963</u>
Total lease payments	<u>\$ 973,634</u>

Two of the lease agreements with MBRC provide for scheduled rent increases which are being recognized on a straight-line basis over the remaining lease term. Rental expense under operating leases approximated \$110,936 in 2007 and \$106,705 in 2006, including expense under the MBRC leases of \$43,041 and \$41,760 in 2007 and 2006, respectively.

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MBRC is a related party but is not controlled by the General, and therefore not consolidated within these financial statements. MGH guarantees the payment by the General of certain obligations under the MBRC leases and the President of MGH, or his designee, serves ex-officio as one of three members on the Board of Trustees of MBRC. A significant portion of MBRC's operating results are generated from the operating leases with the General. Summarized financial data for MBRC as of and for the years ended September 30, 2007 and 2006 is as follows:

	Years Ended	
	September 30,	
	2007	2006
Total operating revenue	\$ 44,698	\$ 43,684
Total operating expenses	27,892	30,000
Income from operations	16,806	13,684
Increase in unrestricted net assets	25,348	20,130

	September 30,	
	2007	2006
Current assets	\$ 65,737	\$ 60,337
Total assets	248,130	246,739
Current liabilities	37,093	36,883
Total liabilities	115,681	139,638
Unrestricted net assets	132,449	107,101

Construction Project

The General is constructing a building that will house a relocated and expanded radiation oncology department, expanded emergency services, three levels of operating and procedure suites, and 150 neurosciences and medical oncology intensive care unit and acute care beds. In addition, space will be dedicated to a new sterile processing department and a central receiving dock. As of September 30, 2007, costs incurred in connection with the new building approximated \$37,982 with approximately \$8,857 in outstanding construction contracts. Planning and construction began in November 2006 and the total project cost is expected to be approximately \$579,000, with phased occupancy scheduled for 2011.

9. Pension and Postretirement Healthcare Plans

Substantially all employees of MGH and its affiliates are covered under The Massachusetts General Hospital Cash Balance Retirement Plan (MGH Plan), a noncontributory defined benefit pension plan. Benefits under the MGH Plan consist of annual allocations to participants' accounts based on the participant's age, years of service and salary. Interest is credited to participants' accounts annually at market rates.

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MGH also provides subsidized healthcare benefits for retired employees of the MGH and its affiliates on a self-insured basis. These benefits are administered through an insurance company and are accounted for on the accrual basis, which includes an estimate of future payments for claims incurred. The accrued postretirement benefit obligation for the General is not funded. The corresponding liability for the General at September 30, 2007 and 2006 was \$46,827 and \$45,313, respectively.

Certain professional staff employed by MGH and its affiliates who hold appointments at the Harvard Medical School, as well as certain administrative staff, participate in the MGH Academic Annuity Plan, which is a defined contribution plan. MGH and its affiliates contribute to the plan a percentage, as defined by the plan agreement, of each participant's annual compensation.

MGH and its affiliates use a measurement date of June 30 for their defined benefit pension and postretirement healthcare benefit plans.

The total expense allocated to the General consists of the following:

	Years Ended September 30,	
	2007	2006
Defined benefit plan	\$ 50,418	\$ 33,495
Defined contribution plan	21,248	19,836
Postretirement healthcare benefit plan	4,414	6,107
	<u>\$ 76,080</u>	<u>\$ 59,438</u>

Benefit Obligations

Change in Benefit Obligations	Defined Benefit Pension Plan		Postretirement Healthcare Benefit Plan	
	2007	2006	2007	2006
Benefit obligations at beginning of year	\$1,257,188	\$1,065,065	\$ 51,487	\$ 72,105
Service cost	69,847	61,818	1,611	1,136
Interest cost	81,061	62,048	3,224	4,048
Assumption changes	-	54,016	-	(2,231)
Actuarial (gain) loss	42,484	57,887	(122)	(18,087)
Benefits paid	<u>(48,746)</u>	<u>(43,646)</u>	<u>(3,748)</u>	<u>(5,484)</u>
Benefit obligations at end of year	<u>\$1,401,834</u>	<u>\$1,257,188</u>	<u>\$ 52,452</u>	<u>\$ 51,487</u>

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The accumulated benefit obligation for the defined benefit pension plan at the end of 2007 and 2006 was \$1,280,682 and \$1,156,365, 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				
Professional staff	6.02%	6.02%	N/A	N/A
Other than professional staff	5.05%	5.05%	N/A	N/A
Healthcare cost trend rate for next year	N/A	N/A	9.00%	9.00%
Rate to which the cost trend rate is to decline	N/A	N/A	5.00%	5.00%
Year that rate reaches the ultimate trend rate	N/A	N/A	2012	2011

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effect:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on postretirement benefit obligation	\$ 1,511	\$ (1,376)

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	\$ 1,203,086	\$ 1,044,761	\$ -	\$ -
Actual return on plan assets	217,416	157,580	-	-
Employer contributions	61,864	44,391	3,748	5,484
Benefits paid	(48,746)	(43,646)	(3,748)	(5,484)
Fair value of plan assets at end of year	<u>\$ 1,433,620</u>	<u>\$ 1,203,086</u>	<u>\$ -</u>	<u>\$ -</u>

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

Asset Category	Target Allocation	Percentage of Plan Assets	
		2007	2006
Domestic equity securities	6% - 26%	17.6%	18.9%
Foreign equity securities	17% - 37%	26.4%	25.5%
Fixed income securities	1% - 21%	14.5%	16.0%
Less market sensitive strategies	20% - 40%	27.9%	27.1%
Inflation protection strategies	6% - 26%	13.6%	12.5%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

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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 under-funded plans and benefit assets for over-funded plans, with offsetting impacts to unrestricted net assets. MGH and its affiliates have elected to early adopt the balance sheet recognition provisions of SFAS 158 as of September 30, 2006. The impact of adoption resulted in a decrease of \$42,512 in the unrestricted net assets of the MGH related to the MGH Plan. For the Postretirement Healthcare Benefit Plan, the impact of adoption resulted in a decrease in unrestricted net assets of \$7,357 for MGH and its affiliates, of which \$6,118 was allocated to the General. 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. MGH and affiliates currently use 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 funded status of the plans, and the related amounts recognized in the consolidated balance sheets of MGH and its affiliates, follows:

End of Year	Defined Benefit Pension Plan		Postretirement Healthcare Benefit Plan	
	2007	2006	2007	2006
Fair value of plan assets at measurement date	\$ 1,433,620	\$ 1,203,086	\$ -	\$ -
Contributions received after measurement date	16,757	11,590	771	1,436
Benefit obligations at measurement date	<u>(1,401,834)</u>	<u>(1,257,188)</u>	<u>(52,452)</u>	<u>(51,487)</u>
Funded status	<u>\$ 48,543</u>	<u>\$ (42,512)</u>	<u>\$ (51,681)</u>	<u>\$ (50,051)</u>

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Amounts recognized in the consolidated balance sheet of MGH and Affiliates consist of:

	Defined Benefit Pension Plan		Postretirement Healthcare Benefit Plan	
	2007	2006	2007	2006
Noncurrent assets	\$ 48,543	\$ -	\$ -	\$ -
Current liabilities	-	-	(3,310)	(3,084)
Long-term liabilities	-	(42,512)	(48,371)	(46,967)
	<u>\$ 48,543</u>	<u>\$ (42,512)</u>	<u>\$ (51,681)</u>	<u>\$ (50,051)</u>

Amounts recognized in the unrestricted net assets of MGH and Affiliates consist of:

	Defined Benefit Pension Plan		Postretirement Healthcare Benefit Plan	
	2007	2006	2007	2006
Actuarial net loss (gain)	\$ (47,748)	\$ 43,512	\$ 7,181	\$ 7,527
Prior service credit	(795)	(1,000)	(149)	(170)
	<u>\$ (48,543)</u>	<u>\$ 42,512</u>	<u>\$ 7,032</u>	<u>\$ 7,357</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	\$ 62,100		\$ 3,310	
				Medicare Subsidy
Expected benefit payments (receipts) 2008	\$ 60,100	\$ 3,545	\$ (235)	
2009	58,100	3,753	(237)	
2010	64,500	3,831	(235)	
2011	68,400	3,879	(230)	
2012	75,300	3,902	(222)	
2013 and thereafter	489,700	19,345	(932)	

The General Hospital Corporation
Notes to Financial Statements
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(dollars in thousands)

Net Periodic Benefit Cost

	Defined Benefit Pension Plan		Postretirement Healthcare Benefit Plan	
	2007	2006	2007	2006
Service cost	\$ 69,847	\$ 61,818	\$ 1,611	\$ 1,136
Interest cost	81,061	62,048	3,224	4,048
Expected return on plan assets	(88,782)	(77,778)	-	-
Amortization of				
Prior service credit	(206)	(206)	(21)	(20)
Actuarial net loss	5,106	489	224	1,433
Net periodic benefit cost	<u>\$ 67,026</u>	<u>\$ 46,371</u>	<u>\$ 5,038</u>	<u>\$ 6,597</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 are \$2,148 and \$205, respectively. The actuarial net loss and prior service credit for the postretirement healthcare benefit plan that will be amortized from unrestricted net assets into net periodic benefit cost in 2008 are \$183 and \$21, respectively.

Weighted-Average Assumptions Used to Determine Net Periodic Pension 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%	N/A	N/A
Rate of compensation increase				
Professional staff	6.02%	6.02%	N/A	N/A
Other than professional staff	5.05%	5.05%	N/A	N/A
Healthcare cost trend rate for this year	N/A	N/A	9.00%	10.00%
Rate to which the cost trend rate is to decline	N/A	N/A	5.00%	5.00%
Year that rate reaches the ultimate trend rate	N/A	N/A	2011	2011

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.

The General Hospital Corporation
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effect:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on service and interest cost	\$ 92	\$ (85)

10. Professional Liability Insurance

The General 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 General 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 the General or factors affecting CRICO that would cause the expense for professional liability risks to vary materially from the amount provided.

11. Transactions with Affiliates

The General received fund-raising, investment management, legal, financial and administrative services from PHS and MGH of \$149,387 and \$136,247 in 2007 and 2006, respectively. The General also purchased certain teaching and administrative services from PHS affiliates, which amounted to \$61,635 and \$53,655 in 2007 and 2006, respectively. The General provided certain administrative services and support primarily to PHS and affiliates, which totaled \$22,793 and \$20,071 in 2007 and 2006, respectively. For the years ended September 30, 2007 and 2006, Spaulding and FRC, Inc. received payments from the General of \$7,050 and \$6,500, respectively, as additional reimbursement for patients transferred from the General and cared for at Spaulding and FRC, Inc. All services among these affiliated corporations were reimbursed on an estimated cost basis.

The General Hospital Corporation
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

During 2007 and 2006, the General 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)		
MGH	\$ 1,075	\$ (37,735)
MGPO	475	464
PHS	111	561
NECHC	(362)	21
Royalty transactions transfer to MGH (Note 15)	<u>(206,000)</u>	<u>(186,000)</u>
	(204,701)	(222,689)
Transfer to MGH of assets released from restrictions	(74,726)	-
Liability transfer to (from) PHS	(6,610)	30,000
Investment transfer to MGH (Note 3)	-	(1,026,668)
Transfer of interest in the net assets of affiliate	<u>-</u>	<u>(260,165)</u>
Transfers from (to) affiliates, net	<u>\$ (286,037)</u>	<u>\$ (1,479,522)</u>

During 2007, assets of \$74,726 that were previously temporarily restricted, were released from restriction and transferred to MGH.

12. Concentration of Credit Risk

Financial instruments that potentially subject the General to concentration of credit risk consist of patient accounts receivable, research grants receivable, pledges receivable and certain investments. The General 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. The General 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. The General has not historically incurred any significant credit losses outside the normal course of business.

The General Hospital Corporation
Notes to Financial Statements
September 30, 2007 and 2006

(dollars in thousands)

13. Restricted Net Assets

Restricted net assets are available for the following purposes:

	September 30,	
	2007	2006
Temporarily restricted		
Charity care	\$ 114,928	\$ 99,270
Buildings and equipment	55,170	27,777
Clinical care, research and academic	432,797	415,530
	<u>\$ 602,895</u>	<u>\$ 542,577</u>
Permanently restricted		
Charity care	\$ 10,926	\$ 10,517
Clinical care, research and academic	136,922	127,968
	<u>\$ 147,848</u>	<u>\$ 138,485</u>

14. Functional Expenses

Total operating expenses by function are as follows:

	Years Ended	
	September 30,	
	2007	2006
Healthcare services	\$ 1,441,956	\$ 1,298,471
Research and academic	595,855	577,713
General and administrative	190,657	163,480
	<u>\$ 2,228,468</u>	<u>\$ 2,039,664</u>

15. Royalty Transactions

During 2007, the General sold its future right to receive royalties on sales of the drug ENBREL® outside North America. The transaction involved a one-time payment to entitle the purchaser to receive royalty payments on sales of ENBREL® outside North America going forward. Under the terms of the agreement, the General received approximately \$213,000 in net proceeds, which included approximately \$4,000 of accrued royalty revenue (of which the General recognized approximately \$1,000 in operating revenue and MGH recognized approximately \$3,000 in nonoperating income). Of the remaining proceeds of approximately \$209,000, approximately \$206,000 has been recognized by the General in nonoperating gains as a component of gifts and other and approximately \$3,000 has been recognized by MGH in nonoperating income. The proceeds are net of a payment of approximately \$71,000 to the drug's inventor, who is an employee of the MGPO, in accordance with established policies of the General. Prior to the sale of the royalty rights, the General received royalty payments on sales of ENBREL® outside North America and recognized operating revenue of \$2,369 and \$6,756 in 2007 and 2006, respectively, with \$7,949 and \$12,850 recognized in nonoperating income at MGH for the same periods.

The General Hospital Corporation
Notes to Financial Statements
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(dollars in thousands)

During 2006, the General reached settlement of a licensing dispute concerning ENBREL®, to which a company has North American sales rights. The settlement involved a one-time payment that eliminated any royalty payments on sales of ENBREL® in North America going forward. The Hospital received approximately \$186,000 in net proceeds from the settlement, and the amount was recorded in nonoperating gains as a component of gifts and other. The proceeds were net of a royalty payment of \$62,000 to the drug's inventor.

16. Contingencies

The General is subject to complaints, claims and litigation which have risen in the normal course of business. In addition, the General 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 the General, has increased.

The General Hospital Corporation
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	\$ 255,688
Applied Toxicological Research and Testing	93.114	173
Oral Diseases and Disorders Research	93.121	785,832
Human Genome Research	93.172	2,293,616
Research Related to Deafness and Communication Disorders	93.173	1,816,657
Research and Training in Complementary and Alternative Medicine	93.213	2,206,610
Mental Health Research Grants	93.242	17,806,397
Alcohol Research Programs	93.273	512,119
Drug Abuse Research Programs	93.279	4,851,513
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	7,325,221
Nursing Research	93.361	460,584
National Center for Research Resources	93.389	18,018,925
Academic Research Enhancement Award	93.390	486,102
Cancer Cause and Prevention Research	93.393	3,408,645
Cancer Detection and Diagnosis Research	93.394	5,323,540
Cancer Treatment Research	93.395	14,867,666
Cancer Biology Research	93.396	12,804,670
Cancer Centers Support Grants	93.397	731,041
Cancer Research Manpower	93.398	160,355
Health Cancer Control	93.399	664,993
Heart and Vascular Diseases Research	93.837	15,894,301
Lung Diseases Research	93.838	3,974,449
Blood Diseases and Resources Research	93.839	4,080,250
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	4,020,871
Diabetes, Endocrinology and Metabolism Research	93.847	13,995,882
Digestive Diseases and Nutrition Research	93.848	10,739,815
Kidney Diseases, Urology and Hematology Research	93.849	5,420,614
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	35,389,662
Biological Basis Research in the Neurosciences	93.854	(456,025)
Allergy, Immunology and Transplantation Research	93.855	29,376,460
Microbiology and Infectious Diseases Research	93.856	4,651,017
Biomedical Research and Research Training	93.859	22,312,225
Genetics and Developmental Biology Research and Research Training	93.862	3
Population Research	93.864	280,152
Center for Research for Mothers and Children	93.865	7,091,997
Aging Research	93.866	13,559,897
Vision Research	93.867	2,226,511
Medical Library Assistance	93.879	115,059
International Research and Research Training	93.989	179,976
Subtotal - National Institutes of Health		<u>267,633,463</u>

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

The General Hospital Corporation

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2007

	Federal CFDA Number	Total Federal Expenditures
Research and Development Direct Programs (cont.)		
Other Department of Health and Human Services		
Administration for Children and Families		
Refugee and Entrant Assistance Discretionary Grants	93.576	\$ 1,127
Assistance for Torture Victims	93.604	332,160
Agency for HealthCare Research and Quality		
Research on Health Care Costs, Quality and Outcomes	93.226	1,526,652
Centers for Disease Control		
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	129,035
Research Treatment and Educational Programs on Lyme Disease in the United States	93.942	146,092
Food and Drug Administration		
Food and Drug Administration Research	93.103	951,992
Health Resources and Services Administration		
Maternal and Child Health Federal Consolidated Programs	93.110	595,140
Substance Abuse and Mental Health Services		
Block Grants for Community Mental Health Services	93.958	203
Subtotal - Other Department of Health and Human Services		<u>3,682,401</u>
Department of Defense		
Basic and Applied Scientific Research	12.300	573,241
Military Medical Research and Development	12.420	14,900,759
Basic, Applied and Advanced Research in Science and Engineering	12.630	4,873,191
Subtotal - Department of Defense		<u>20,347,191</u>
Department of Education		
Fund for the Improvement of Post Secondary Education	84.116	18,507
Subtotal - Department of Education		<u>18,507</u>
Department of Justice		
Office of Juvenile Justice and Delinquency Prevention	16.542	209,382
Subtotal - Department of Justice		<u>209,382</u>
Department of Veterans' Affairs		
Veteran Rehabilitation - Alcohol and Drug Dependence	64.019	175,456
Subtotal - Department of Veterans' Affairs		<u>175,456</u>
National Aeronautics and Space Administration		
Aerospace Education Services Program	43.001	533,982
Subtotal - National Aeronautics and Space Administration		<u>533,982</u>
National Science Foundation		
Engineering Grants	47.041	9,787
Mathematical and Physical Sciences	47.049	508,142
Biological Sciences	47.074	947,875
Social, Behavioral and Economic Sciences	47.075	38,774
Computer and Information Science Engineering	47.070	38,375
Geosciences	47.050	28,360
Subtotal - National Science Foundation		<u>1,571,313</u>
Total Research and Development Direct Programs		<u>294,171,695</u>

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

The General Hospital Corporation
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 Medical School	93.059	5U54AI057159-04	\$ 66,007
Tufts University	93.113	R21ES015182	50,765
Case Western Reserve University	93.113	5R01ES013925-02	173,528
Harvard School of Public Health	93.114	Various	844
Genex Technologies, Inc.	93.114	5R43ES012360-02	201,323
Brigham and Women's Hospital	93.121	5P01DE014388-05	(16,369)
Forsyth Institute	93.121	5R21DE016370-02	99
University of Colorado	93.121	5R01DE012998-08	44,177
Physical Sciences, Inc.	93.121	5R44DE014803-02	156,759
Harvard Pilgrim Health Care	93.172	5R01HG002085-06	36
University of Rochester	93.172	Various	37,971
Boston University	93.173	5U19DC003610-11	108,643
Harvard University	93.173	5R01DC006842-02	123,318
Wesleyan University	93.173	5R01DC006267-04	184,568
Kay Elementrics Corporation	93.173	2R42DC005678-02-A1	202,485
Northeastern University	93.173	5R01DC005237-05	219,094
Regional Medical Center at Lubec	93.211	Various	51,120
Dana-Farber Cancer Institute	93.213	5U19AT002022-03	(45,016)
Baylor College of Medicine	93.242	1R01MH074791-01-A2	7,739
Boston University	93.242	5R21MH072165-04	64,325
Brandeis University	93.242	5R01MH066836-04	37,822
Brigham and Women's Hospital	93.242	5R01MH069732-02	52,968
Broad Institute of MIT	93.242	1R01MH071681-01-A2	97,433
Butler Hospital	93.242	1R01MH076179-01-A1	12,716
Harvard University	93.242	Various	321,165
Research Foundation of State University	93.242	Various	282,702
Tourette Syndrome Association	93.242	5R01MH070802-03	23,321
University of California, San Diego	93.242	1R01MH073991-01-A1	49,478
University of Rochester	93.242	5R01MH073111-02	67,376
University of Texas Health Science Center	93.242	N01MH060014	414
University of Texas Southwestern Medical Center	93.242	N01MH090003	165,382
Yale University School of Medicine	93.242	5R01MH065869-05	245,938
Harvard School of Public Health	93.266	U51HA02522-03	94,496
Boston University	93.273	2R01AA007112-19-A1	156,651
McLean Hospital	93.273	5U10AA011756-06	244
Research Triangle Institute International	93.273	5R01AA012788-07	25,587
San Diego State University	93.273	Various	103,979
Boston University	93.279	5R01DA017904-03	55,595
George Washington University	93.279	1R21DA022971-01	31,693
Harvard Medical School	93.279	5R01DA011558-09	(154)
Kennedy Krieger Institute	93.279	5R21DA015898-03	53
McLean Hospital	93.279	5U10DA015831-04	392,141
Beth Israel Deaconess Medical Center	93.281	2R01MH056956-10-A1	304,436
Mayo Clinic	93.281	5R01GM028835-25	40,937
McLean Hospital	93.281	2P50MH060450-07-A1	113,750
Brigham and Women's Hospital	93.286	Various	271,891
Georgetown University	93.286	1R01EB006589-01	23,744
Physical Sciences, Inc.	93.286	2R44EB000365-02-A2	142,532
Rensselaer Polytechnic Institute	93.286	5R01EB000456-02	80,776
Boston University	93.287	5R01EB001550-04	122,949

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

The General Hospital Corporation
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.)			
Children's Hospital of Philadelphia	93.371	7R01AR042396-09	\$ 746
University of California, Irvine	93.371	5M01RR000827-31	(7,895)
University of California, San Diego	93.371	5R01EB000790-04	1,137,465
Broad Institute of MIT	93.389	1P41HG003057-02	139,374
Schepens Eye Research Institute	93.389	5P20RR020753-03	146,697
University of California, Irvine	93.389	1U24RR021992-01-A1	442,637
Brigham and Women's Hospital	93.393	1R01CA114205-01-A1	133,585
Fox Chase Cancer Center	93.393	5R01CA109332-03	139,998
Harvard School of Public Health	93.393	Various	64,880
Sloan Kettering Institute for Cancer Research	93.393	5U01CA105492-03	(40,476)
University of Pennsylvania	93.393	2R01CA083115-06	9,207
Brigham and Women's Hospital	93.394	Various	167,329
Broad Institute of MIT	93.394	1U24CA126476-01	125,515
Dana-Farber Cancer Institute	93.394	5R01CA114465-02	17,601
George Washington University	93.394	Various	1,158,693
Harvard Medical School	93.394	Various	393,855
LDS Hospital	93.394	Various	204,913
Massachusetts Institute of Technology	93.394	5R01CA097966-04	28,627
Regents of the University of California	93.394	Various	139,185
Tufts University	93.394	1R21CA114684	26
Acenta Discovery, Inc.	93.395	R41MH074193-02	118,175
American College of Radiology	93.395	Various	31,067
Brigham and Women's Hospital	93.395	Various	84,955
Cancer and Leukemia Group B Foundation	93.395	5U10CA031946	16,895
Dana-Farber Cancer Institute	93.395	Various	338,831
Duke University Medical Center	93.395	7R21CA099237-02	75,893
Fidelity Foundation	93.395	Various	26,418
Fox Chase Cancer Center	93.395	1R01CA075795-02	412
Implant Sciences	93.395	2R44CA092924-02-A3	168,678
National Childhood Cancer Foundation	93.395	5U10CA098543-04	(7,320)
Physical Sciences, Inc.	93.395	5R44CA096243-02	(3,689)
Rensselaer Polytechnic Institute	93.395	5R01CA116743-02	50,105
University of Chicago	93.395	Various	239,534
Virginia Commonwealth University	93.395	1R21CA115260-01	37,344
Wake Forest University	93.395	5R21CA104427-02	3,192
Brigham and Women's Hospital	93.396	5UO1CA084301-09	118,630
Dana-Farber Cancer Institute	93.396	Various	804,588
Harvard Medical School	93.396	1R01CA127990-01-A2	27,985
Mayo Clinic	93.396	1P50CA116201-01	26,739
Mount Sinai School of Medicine	93.396	Various	215,360
Ohio State University	93.396	5R01CA085139-05	346,326
Beth Israel Deaconess Medical Center	93.397	5P50CA101942-04	360,141
Brigham and Women's Hospital	93.397	Various	726,433
Dana-Farber Cancer Institute	93.397	Various	2,308,987
Massachusetts Institute of Technology	93.397	1U54CA126515-01	238,129
M.D. Anderson Cancer Center	93.397	2P50CA083639-06-A1	83,523
Boston University Medical Center	93.398	5R25CA091958-04	25,383
Brigham and Women's Hospital	93.399	Various	386,812
Butler Hospital	93.399	7P50CA084719-07	30,103
Dana-Farber Cancer Institute	93.399	Various	(97,532)
Dartmouth College	93.399	5R01CA107124-02	37,225
Decision Biomarkers, Inc.	93.399	1R43CA112865-01	(3,671)
Harvard Pilgrim Health Care	93.399	5U19CA079689-07	27,161
Massachusetts Institute of Technology	93.399	5U54CA119349-02	673,015

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

The General Hospital Corporation

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.)			
National Surgical Adjuvant Breast & Bowel Project	93.399	U10CA037377	\$ 6,201
Northwestern University	93.399	5U10CA030969-21	97
University of California, Irvine	93.399	5U54CA105480-04-S1	135,731
University of Colorado	93.399	5R01CA068099-08	61,404
University of Pennsylvania	93.399	5P50CA084718-09	23,587
University of Pittsburgh	93.399	1R01CA108990-01-A1	(7,633)
Brigham and Women's Hospital	93.837	Various	281,711
Children's Hospital of Boston	93.837	5P50HL067669	33,500
Eukarion, Inc.	93.837	1R41HL073596-01	(13,016)
Massachusetts Institute of Technology	93.837	1R44HL079726-02	45,420
Medical College of Ohio	93.837	5U01HL071550-04	12,526
Mount Sinai School of Medicine	93.837	1R01HL071988-01-A1	44
Rhode Island Hospital	93.837	5U01HL077221-02	642
State University of New York Upstate Medical University	93.837	1R01HL716350-1	2
University of Arizona	93.837	5U01HL065594-05	178
University of Pittsburgh	93.837	Various	(66,420)
University of Toledo	93.837	5U01HL071556-04	72,349
Vanderbilt University	93.837	5U01HL065962-06	500,455
Carolinas Medical Center	93.838	1R01HL074384-01	2,060
Columbia University	93.838	5R01HL075476-03	23,094
Harvard School of Public Health	93.838	2R01HL060710-06-A1	180,666
CBR Institute for Biomedical Research, Inc.	93.839	Various	309,973
Center for Blood Research, Inc.	93.839	5U24HL074355-03	44,281
Dana-Farber Cancer Institute	93.839	5U01HL069249-04	23,309
Brigham and Women's Hospital	93.846	Various	61,034
Dartmouth College	93.846	5P60AR048094-04	130,438
University of California, San Francisco	93.846	Various	157,352
Yale University School of Medicine	93.846	1P50AR054086-01	256,871
Brigham and Women's Hospital	93.847	Various	66,104
George Washington University	93.847	5U01DK061230-05	864,070
Harvard Medical School	93.847	5P01DK056246-07	429,821
Joslin Diabetes Center	93.847	Various	35,943
Beth Israel Deaconess Medical Center	93.848	5R01DK071041-02	218,242
Boston Medical Center	93.848	2P30DK046200-15	41,405
Case Western Reserve University	93.848	N01-DK-6-2203	316,378
University of Alabama	93.848	N01-AI-15440	4,002
University of Pennsylvania	93.848	5R01DK059961-06	15,069
University of Texas Southwestern Medical Center	93.848	2U01DK058369-06	6,334
Brigham and Women's Hospital	93.849	5R01DK066017-03	39,867
Union Biometrica	93.849	1R42DK055964-01	89
University of Alabama, Birmingham	93.849	5U01DK063788-04	(25,676)
University of California, Los Angeles	93.849	5R01DK067563-02	92,793
Beth Israel Deaconess Medical Center	93.853	Various	41,474
Boston University	93.853	Various	71,453
Children's Hospital of Boston	93.853	Various	48,102
Columbia University	93.853	Various	41,207
Genpathway, Inc.	93.853	2R44NS045386-02	156,778
Harvard Medical School	93.853	5R01MH063951-04	84
Henry M. Jackson Foundation for Military Medicine	93.853	5R01NS047717-04	215,991
Johns Hopkins University School of Medicine	93.853	5R01NS042607-02	(6,703)
Kennedy Krieger Institute	93.853	5R01NS047781-02	17,811

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

The General Hospital Corporation
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.)			
Mayo Clinic	93.853	Various	\$ 46,783
Northwestern University	93.853	5R01NS050641-03	280,257
Harvard University	93.853	1U01NS050560-01-A2	506,991
Spaulding Rehabilitation Hospital	93.853	5R21NS045410-04	66,801
Techen, Inc.	93.853	2R44NS044785-02	87,820
Tourette Syndrome Association	93.853	5R01NS040024-05	(85,309)
University of Alabama	93.853	5R01NS043789-04	103,813
University of Cincinnati	93.853	5R01NS039512-05	(24,235)
University of Iowa	93.853	5R01NS040068-06	5,006
University of Massachusetts Medical School	93.853	5R01NS038194-07	39,169
University of Medicine and Dentistry of New Jersey	93.853	5R01NS038384-05	28,763
Wake Forest University, Bowman Gray School of Medicine	93.853	5R01NS034447-09	5,634
Washington University	93.853	Various	7,164
Yale University	93.853	5R01NS044876-03	116,476
Mayo Clinic	93.854	1R01NS039987-01	(37)
McLean Hospital	93.854	Various	305,835
AmberGen, Inc.	93.855	2R44AI052525-03-A1	31,025
Beth Israel Deaconess Medical Center	93.855	Various	72,884
Brigham and Women's Hospital	93.855	5U01AI063623-03	482,039
Center for Blood Research, Inc.	93.855	5P01AI052343-04	271,529
Children's Hospital of Boston	93.855	5P01AI050157-05	(57,137)
Duke University	93.855	N01-AI-05419-01	41,538
Harvard Medical School	93.855	5U54AI057159-05	25,035
Joslin Diabetes Center	93.855	5P01AI054904-04	879,672
Lynntech	93.855	2R44 AI68400-03A1	201,399
Massachusetts Institute of Technology	93.855	5R21AI006731-02	(31)
Mount Sinai School of Medicine	93.855	1U01AI070107-01	150,474
North Carolina State University	93.855	9R01AI071915-01	144,230
Regents of the University of Minnesota	93.855	1R01AI063274-01	66,803
Social and Scientific Systems, Inc.	93.855	Various	437,352
University of California at San Francisco	93.855	5U01AI052748-03	98,976
University of Colorado	93.855	5U19AI050864-05	(389)
University of Florida	93.855	5P01AI042288-05	(2)
Beth Israel Deaconess Medical Center	93.856	Various	415,629
BioScale, Inc.	93.856	5R43AI067050-02	77,161
Boston University	93.856	5R01EB000756-05	90,190
Brigham and Women's Hospital	93.856	5U19AI046130-08	198,226
Children's Hospital of Boston	93.856	N01-LM3-3515	92,975
Dana-Farber Cancer Institute	93.856	5P30AI028691-15	(4,926)
Duke University	93.856	Various	82,694
Harvard University	93.856	Various	1,381,993
Los Alamos National Laboratory	93.856	1R21AI005542-02	41,545
Northeastern University	93.856	5R21AI059483-02	(20,827)
Primary Immunodeficiency Research Consortium, Inc.	93.856	N01AI030070	173,936
Rush Presbyterian/St. Luke's Medical Center	93.856	5P01AI055793-04	(1,954)
Social and Scientific Systems, Inc.	93.856	1U01AI068636-01	243,079
Strang Cancer Prevention Center	93.856	N01CN095015	93,318
Tufts University	93.856	R01AI062989	2,438
University of California, San Francisco	93.856	N01AI015416	121,607
University of Maryland	93.856	5R01AI042181-08	106,084
University of North Carolina, Chapel Hill	93.856	5P01AI050246-04	(107)
University of Texas Medical Branch, Galveston	93.859	5P01GM066312-02	64,276

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

The General Hospital Corporation
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.)			
Brigham and Women's Hospital	93.862	5P01GM061354-05	\$ (7,526)
Boston University Medical Center	93.864	5R01DK062270-03	(3)
Brigham and Women's Hospital	93.865	5R01HD040291-03	72,016
Children's Hospital Medical Center, Cincinnati	93.865	5P01HD013021-29	364,151
Children's Hospital of Boston	93.865	5R01HD041531-02	(4,337)
Kennedy Krieger Institute	93.865	5R01HD039276-02	(495)
University of Rochester	93.865	5U19HD035466-09	76,404
Yale University School of Medicine	93.865	5R01HD046171-0-	132,838
Beth Israel Deaconess Medical Center	93.866	5P60AG08812-13	(1,134)
Boston University	93.866	5R01AG009661-15	81,546
Brigham and Women's Hospital	93.866	Various	1,788,515
Columbia University	93.866	Various	151,099
Hebrew Rehabilitation Center	93.866	5P60AG008812-13	(10)
Harvard University	93.866	4R37AG008441-18	66,167
University of California, San Diego	93.866	Various	193,444
University of Washington, Seattle	93.866	5U01AG016976-08	26,816
Eukarion, Inc.	93.867	1R41EY015028-01	(26,723)
Brigham and Women's Hospital	93.879	5U54LM008748-03	926,683
University of Massachusetts Medical School	93.879	N01LM63508	6,606
Columbia University	93.886	3R01AG007370-15-S3	(1,328)
Harvard Medical School	93.969	D31HP70114-06-00	<u>822</u>
Subtotal - National Institutes of Health			<u>33,172,930</u>
Other Department of Health and Human Services			
Health Resources and Services Administration			
Brigham and Women's Hospital	93.110	5R40MC000248-03	(12,189)
Crotched Mountain Foundation	93.110	H02MC02613-01-00	54,124
Georgetown University	93.110	6U93MC000100-06	311
Harvard Medical School	93.157	5D43HP040830-3	10,539
Dimock Community Health Center	93.928	4H97HA000176-04	(20)
Food and Drug Administration			
Mount Sinai Medical	93.103	FD-R-002613	16,368
Agency for Health Care Policy and Research			
Brigham and Women's Hospital	93.226	5P01HS011534-05	1
Harvard Medical School	93.226	5U18HS009205-10	(38,138)
University of California, San Francisco	93.226	5R01HS013915-03	39,194
Yale University	93.226	U18HS009205	129,256
Centers for Disease Control			
Association of American Medical Colleges	93.283	U36CCU319276	8,779
Beth Israel Deaconess Medical Center	93.283	Various	166,634
Harvard School of Public Health	93.283	U90/CCU124242-02	<u>51,869</u>
Subtotal - Other Department of Health and Human Services			<u>426,728</u>

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

The General Hospital Corporation
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.)			
Department of Defense			
U.S. Army Medical Command			
Admetech	12.420	DAMD17-03-2-0055	\$ 14,612
Boston Medical Center	12.420	W81XWH-06-1-0309	79,144
Children's Hospital Medical Center, Cincinnati	12.420	W81XWH-04-1-0273	73,424
Dana-Farber Cancer Institute	12.420	Various	96,061
Energid	12.420	Various	19,324
House Ear Institute	12.420	Various	(85,124)
Livedata, Inc.	12.420	W81XWH-04-C-0015	46,045
Payload Systems, Inc.	12.420	W81XWH-05-C-0044	156,662
Science Research Laboratories, Inc.	12.420	W81XWH-04-C-0139-SRL	(831)
T.R.U.E. Research Foundation	12.420	W81XH-06-2-0033	84,241
U.S. Civilian Research & Development Foundation	12.420	S-LMAQM-04-GR-074	(175)
University of California at San Francisco	12.420	Various	284,577
Waveband, Inc.	12.420	W81XWH-04-C0031	95,399
Wayne State University	12.420	Various	(260)
Office of the Secretary of Defense			
Massachusetts Institute of Technology	12.630	Various	39,419
Physical Sciences, Inc.	12.630	Various	251,391
Subtotal - Department of Defense			<u>1,153,909</u>
Department of Energy			
Brookhaven Science Associates	81.049	DE-FG02-06ER06-10	3,195
Harvard Medical School	81.049	DE-FG02-02ER63445	223,691
The Mind Institute	81.049	06-540-N1&06-540-N2	170,286
Subtotal - Department of Energy			<u>397,172</u>
Department of Education			
Spaulding Rehabilitation Hospital	84.133	H133A021934	12,503
Subtotal - Department of Education			<u>12,503</u>
National Aeronautics and Space Administration			
National Space Biomedical Research Institute	43.001	NCC9-58-104	2
Subtotal - National Aeronautics and Space Administration			<u>2</u>
National Science Foundation			
Duke University	47.074	06-SC-NSF-1020	295,853
Harvard University	47.075	BCS-0322611/135909	84,551
Massachusetts Institute of Technology	47.041	BES-0609182	4,351
Subtotal - National Science Foundation			<u>384,755</u>
Total Research and Development Pass-Through Programs			<u>35,547,999</u>
Total Research and Development			<u>329,719,694</u>

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

The General Hospital Corporation
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

	Federal CFDA Number	Total Federal Expenditures
Research Training Direct Programs		
Department of Health and Human Services		
National Institutes of Health		
Oral Diseases and Disorders Research	93.121	\$ 2,387
Research Related to Deafness and Communication Disorders	93.173	136,145
Research and Training in Complementary and Alternative Medicine	93.213	460,421
National Center on Sleep Disorders Research	93.233	64,975
Mental Health Research Grants	93.242	41,503
Alcohol Research Career Development Awards for Scientists and Clinicians	93.271	156,192
Alcohol Research Programs	93.273	18,688
Awards and Research Scientist Awards	93.277	(21,966)
Drug Abuse and Addiction Research Programs	93.279	332,888
Mental Health Research Career/Scientist Development Awards	93.281	2,961,915
Mental Health National Research Service Awards for Research Training	93.282	478,840
Discovery and Applied Research for Technical Innovations to Improve Human Health	93.286	165,767
Biomedical Research Technology	93.371	218,849
Cancer Research Manpower	93.398	6,222,682
Special Emphasis in Research Career Development	93.461	87,616
Heart and Vascular Diseases Research	93.837	2,848,638
Lung Diseases Research	93.838	938,976
Blood Diseases and Resources Research	93.839	170,015
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	456,122
Diabetes, Endocrinology and Metabolism Research	93.847	1,441,866
Digestive Diseases and Nutrition Research	93.848	1,849,621
Kidney Diseases, Urology and Hematology Research	93.849	1,153,270
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	2,381,123
Biological Basis Research in the Neurosciences	93.854	(4,281)
Allergy, Immunology and Transplantation Research	93.855	2,450,850
Microbiology and Infectious Diseases Research	93.856	377,835
Biomedical Research and Research Training	93.859	849,858
Population Research	93.864	90,701
Child Health and Human Development Extramural Research	93.865	368,517
Aging Research	93.866	850,348
Vision Research	93.867	170,234
Center for Medical Rehabilitation Research	93.929	158,792
International Research and Research Training	93.989	452,362
Subtotal - National Institutes of Health		28,331,749
Other Department of Health and Human Services		
Agency for Health Care Research and Quality		
Research on HealthCare Costs, Quality and Outcomes	93.226	168,128
Substance Abuse and Mental Health Programs		
Substance Abuse and Mental Health Programs	93.276	95,409
Health Resources and Services Administration		
Nurse Education, Practice and Retention Grants	93.359	20,619
Subtotal - Other Department of Health and Human Services		284,156
National Science Foundation		
Mathematical and Physical Sciences	47.049	87,448
Subtotal - National Science Foundation		87,448
Total Research Training Direct Programs		28,703,353

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

The General Hospital Corporation
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

	Federal CFDA Number	PassThrough Number	Total Federal Expenditures
Research Training Passed Through Other Organizations			
Department of Health and Human Services			
National Institutes of Health			
Beth Israel Deaconess Medical Center	93.186	5T32HP01100119	\$ 191,460
Children's Hospital of Boston	93.233	5K23HL07323802	(6,302)
Judge Baker Children's Center	93.242	5T32MH01625928	69,122
Harvard Medical School	93.281	5K21MH00108003	(7,975)
Harvard Medical School	93.286	5T32EB00163204	154,543
DanaFarber Cancer Institute	93.395	5K08CA12015904	100,501
Harvard University	93.398	Various	39,158
Brigham and Women's Hospital	93.837	Various	36,599
Children's Hospital of Boston	93.837	5T32HL06698705	2,150
Harvard Medical School	93.839	5T32HL00762320	77,831
Brigham and Women's Hospital	93.846	5T32AR00709831	82,157
Harvard Medical School	93.846	T32 AR07098	120
Brigham and Women's Hospital	93.847	3T32DK00775407S1	31,911
Joslin Diabetes Center	93.847	5T32DK06370205	75,651
Children's Hospital of Boston	93.849	5T32HP01001812	10,495
Harvard Medical School	93.853	5T32NS00748404	(4,817)
Harvard School of Public Health	93.854	1T32NS04800501	2,890
Brigham and Women's Hospital	93.856	5T32AI00706129	72,986
Harvard School of Public Health	93.856	Various	161,530
Harvard Medical School	93.865	5T32HD05296103	107,837
Harvard Medical School	93.866	5T32AG00022215	69,825
Subtotal - National Institutes of Health			<u>1,267,672</u>
Other Department of Health and Human Services			
Health Resources and Services Administration			
Harvard Medical School	93.157	4D34HP040830301	29,632
Children's Hospital of Boston	93.186	5T32HS00006313	34,140
Subtotal - Other Department of Health and Human Services			<u>63,772</u>
National Science Foundation			
Massachusetts Institute of Technology	47.041	Various	25,877
Subtotal - National Science Foundation			<u>25,877</u>
Total Research Training Pass-Through Programs			<u>1,357,321</u>
Total Research Training			<u>30,060,674</u>
Total Research and Development and Research Training Cluster			<u>359,780,368</u>

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

The General Hospital Corporation
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

	Federal CFDA Number	Pass-Through Number	Total Federal Expenditures
OTHER PROGRAMS			
Passed Through the Commonwealth of Massachusetts			
Department of Agriculture			
Food and Nutrition Service			
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	INTF3502M03700915059	\$ 467,562
Subtotal - Department of Agriculture			<u>467,562</u>
Department of Justice			
Office of Victims of Crime			
Crime Victim Assistance	16.575	VOCA2007MGHI00000001	45,283
Subtotal - Department of Justice			<u>45,283</u>
Department of Health and Human Services			
Centers for Disease Control			
Childhood Immunization Grants	93.268	INTF3502M3700915059	3,174
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	INTF3407MM3RFR1G7239	78,830
HIV Prevention Activities - Health Department Based	93.940	INTF5277MM3701018010	231,116
Preventive Health Services - Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	93.978	INTF5277MM3701018010	5,640
Maternal and Child Health Services Block Grant to the States	93.994	SCDPH331058020290000	28,702
Administration for Children and Families			
Refugee and Entrant Assistance-State Administered Programs	93.583	INTF5189MM3600914020	44,933
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	INTF0000009950718914	15,000
Health Resources and Services Administration			
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	SCDPH371252202140000	45,980
Subtotal - Department of Health and Human Services			<u>453,375</u>
Total Other Programs			<u>966,220</u>
Total Federal Expenditures			<u>\$ 360,746,588</u>

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

The General Hospital Corporation

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 transactions of The General Hospital Corporation (the "Hospital") recorded 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 individual pass-through entities 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, 2004 through September 30, 2007 of 75% for on-site research, and for the period October 1, 2003 through September 30, 2007 of 26% for off-site research. Fringe benefit rates for the period October 1, 2006 through September 30, 2007 range from 10% to 34%.

3. Stafford Loan Program

During the fiscal year ending September 30, 2007, the Hospital processed \$117,177 in new loans under the Stafford Loan Program (CFDA number 84.032), granted by the Department of Education.

4. Subrecipients

During fiscal 2007, the Hospital provided to subrecipients in the Research and Development and Research Training Program \$38,395,671 as follows. These amounts are included in the accompanying Schedule of Expenditures of Federal Awards:

Acenta Discovery, Inc.	\$	103,493
Albert Einstein College of Medicine		131,039
Asociacion Civil Impacta Salud Y Education		201,527
Battelle		982,754
Bay Cove Treatment Center		1,668
Baylor College of Medicine, Inc.		100,699
Beth Israel Deaconess		2,725,784
Boston Medical Center Corporation		100,619
Boston University		711,217
Boston VA Research Institute, Inc.		37,003
Brigham and Women's Hospital		4,410,175
Brown University		101,961
Burke Medical Research Institute		194,237
Butler Hospital		38,795
Cambridge Health Alliance		81,737
Cambridge Polymer Group, Inc.		26,947
Cancer Therapy & Research Center		6,641
Case Western Reserve University		96,831
Center For Information & Study on Clinical Research		135,659
Center for Survey Research		12,050
Centre National De La Recherche Scientifique		82,647
Charles Stark Draper Laboratories, Inc.		579,084

The General Hospital Corporation

Notes to Schedule of Expenditures of Federal Awards

September 30, 2007

Children's Hospital Boston	\$	652,129
Children's Hospital Oakland		73,089
Children's Hospital Pediatric Association, Inc.		68,985
Chulalongkom University Bangkok		140,360
Cleveland Clinic Educational Foundation		127,263
Colorado State University		176,804
Dana-Farber Cancer Institute		1,240,964
Dartmouth College		56,412
Duke University		1,004,453
Fenway Community Health Center, Inc.		57,689
Fiotec		83,518
Foundation for Applied Evolution		78,696
Fraunhofer Institut für Techno- und Wirtschaftsmathematik		69,188
Fraunhofer-Gesellschaft		69,188
Gazi Universitesi		31,248
George Washington University		48,844
Georgetown University		36,160
Gray Cancer Institute		121,601
Habit Management Institute		12,359
Harvard University		2,491,800
Hebrew Rehabilitation Center		164,855
Hebrew University, Jerusalem		41,000
Heriot-Watt University		4,554
Hospital for Sick Children		118,877
House Ear Institute		15,130
Imperial College London		418,295
Institut National de la Recherche Scientifique		25,000
International Center for Diarrhoeal Disease Research		442,629
INRS University of Quebec		25,000
Isomics, Inc.		64,920
Johns Hopkins University		729,042
Joslin Diabetes Center, Inc.		1,127,809
Kaiser Foundation Research Institute		94,449
Kennedy Krieger Institute		31,394
Kleimann Communication Group, Inc.		50,000
Kol Bio-Medical Instruments		22,133
Los Alamos National Laboratory		80,765
Louisiana State University		237,567
Loyola University		98,246
Massachusetts Institute of Technology		4,239,362
Mathematica Policy Research, Inc.		71,451
McLaughlin Research Institute		29,234
McLean Hospital		81,373
Memorial Sloan Kettering Cancer Center		46,860
Miami University		117,542
Miriam Hospital		49,974
Nankai University		93,725
National Center For STD/Aids Control & Prevention		167,464
New England Medical Center		(10,282)
New York University		415,357
National Initiative for Children's Healthcare Quality		42,414
Northeastern University		91,566
Ohio State University		176,601
Ohio State University Research Foundation		32,468
Oregon Health and Science University		143,185
Phase Forward, Inc.		104,493
Physical Sciences, Inc.		32,379
Ponce School of Medicine Library		77,545
Purdue University		103,982
Regents of The University of California		1,753,617
Regents of The University of Michigan		23,820
Research Foundation of State University of New York		103,399

The General Hospital Corporation
Notes to Schedule of Expenditures of Federal Awards
September 30, 2007

Rhode Island Hospital	\$	20,684
Robarts Research Institute		17,223
Rutgers University		1,146
Schepens Eye Research Institute, Inc.		414,355
Scripps Research Institute		206,459
Semmelweis University		19,812
Southwest Foundation / Biomed		69,068
Stanford University		987,229
Tangdu Hospital		44,236
Temple University		6,758
Thomas Jefferson University		31,461
Tufts College		98,503
Utrecht University		140,799
Universitat Pompeu Fabra		22,247
Universitätskrankenhaus Hamburg		10,800
University Chest		82,403
University Hospitals of Cleveland		94,682
University of Alabama		135,301
University of Arizona		15,375
University of British Columbia		24,845
University of Calgary		80,773
University of California		468,324
University of California, Davis		48,693
University of Capetown		30,941
University of Colorado Health Sciences		103,618
University of Connecticut		62,321
University of Dundee		24,597
University of Florida		650,274
University of Kwazulu-Natal		455,433
University of Maryland		189,175
University of Massachusetts		168,971
University of Massachusetts, Dartmouth		39,158
University of Massachusetts, Lowell		6,100
University of Massachusetts Medical School		10,163
University of Michigan		7,440
University of New South Wales		422,942
University of Notre Dame		35,109
University of Pittsburgh		156,828
University of Rochester		548,347
University of Texas		442,664
University of Vermont		1,364
University of Washington		964,601
University of Zurich		20,000
Varian Medical Systems		120,208
Vlaams Interuniversitair Instituut		57,000
Washington University		565,305
Weill Cornell Medical College		12,786
Whitehead Institute		585,115
Wits Health Consortium		(6,873)
Yale University		398,397
	\$	<u>38,395,671</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 General Hospital Corporation

We have audited the financial statements of The General Hospital Corporation 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 General Hospital Corporation'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 General Hospital Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The General Hospital Corporation'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 General Hospital Corporation'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 General Hospital Corporation in a separate letter dated December 19, 2007.

This report is intended solely for the information and use of The General Hospital Corporation'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 General Hospital Corporation

Compliance

We have audited the compliance of The General Hospital Corporation 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 General Hospital Corporation'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 General Hospital Corporation's management. Our responsibility is to express an opinion on The General Hospital Corporation'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 General Hospital Corporation'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 General Hospital Corporation's compliance with those requirements.

In our opinion, The General Hospital Corporation 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 General Hospital Corporation 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 General Hospital Corporation'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 General Hospital Corporation'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 General Hospital Corporation'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 General Hospital Corporation
 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 no 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 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

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 General Hospital Corporation
Summary Schedule of the Status of Prior Audit Findings
Year Ended September 30, 2007

There were no findings from prior years to update.