



SEATTLE CHILDREN'S HOSPITAL

EIN No. 91-0564748

OMB Circular A-133

Supplementary Financial Report

Year ended September 30, 2008

(With Independent Auditors' Report Thereon)

SEATTLE CHILDREN'S HOSPITAL

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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
Seattle Children's Hospital:

We have audited the accompanying balance sheet of Seattle Children's Hospital (a Washington not-for-profit corporation and a controlled affiliate of Seattle Children's Healthcare System) (the Hospital) as of September 30, 2008 and 2007, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheet of Seattle Children's Hospital as of September 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2009 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

KPMG LLP

January 14, 2009

SEATTLE CHILDREN'S HOSPITAL

Balance Sheets

September 30, 2008 and 2007

(In thousands of dollars)

Assets	2008	2007
Current assets:		
Cash and cash equivalents	\$ 8,501	9,981
Accounts receivable, net of allowance for uncollectible accounts of \$2,864 in 2008 and \$2,222 in 2007	87,035	73,512
Receivables from affiliates	14,069	3,864
Other current assets	25,622	23,719
Current portion of assets whose use is limited	9,612	7,338
Total current assets	144,839	118,414
Assets whose use is limited:		
Investments	144,785	160,663
Pooled investments held at SCHS	186,860	224,502
Investments under bond indenture and other agreements, noncurrent portion	7,005	12,253
	338,650	397,418
Beneficial interest in SCHS	38,554	46,713
Land, buildings and equipment, at cost, less accumulated depreciation of \$302,144 in 2008 and \$276,486 in 2007	554,045	538,545
Receivables from affiliates, net of current portion	3,134	3,815
Other assets, net	11,740	14,932
Total assets	\$ 1,090,962	1,119,837
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	\$ 5,885	5,630
Payable to affiliates	—	7,455
Accounts payable	41,844	34,758
Accrued salaries, wages, and benefits	32,409	26,940
Other payables	1,046	999
Interest payable	3,727	1,708
Total current liabilities	84,911	77,490
Deferred compensation and other liabilities	16,464	12,670
Long-term debt, net of current portion	296,894	298,836
Total liabilities	398,269	388,996
Commitments and contingencies (note 8)		
Net assets:		
Unrestricted	503,888	516,829
Temporarily restricted	26,382	53,043
Permanently restricted	162,423	160,969
Total net assets	692,693	730,841
Total liabilities and net assets	\$ 1,090,962	1,119,837

See accompanying notes to financial statements.

SEATTLE CHILDREN'S HOSPITAL

Statements of Operations and Changes in Net Assets

Years ended September 30, 2008 and 2007

(In thousands of dollars)

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Net patient service revenues	\$ 543,174	435,826
Other operating revenues	36,641	27,749
Research revenue	37,747	32,394
Net assets released from restriction for operations:		
Uncompensated care	15,344	14,922
Other	6,552	4,345
Total operating revenues	<u>639,458</u>	<u>515,236</u>
Operating expenses:		
Salaries, wages, and benefits	290,704	239,460
Purchased services	127,827	94,555
Supplies and other expenses	130,825	107,514
Provision for uncollectible accounts	2,889	2,236
Depreciation	40,511	38,929
Interest	13,416	9,506
Total operating expenses	<u>606,172</u>	<u>492,200</u>
Operating income	<u>33,286</u>	<u>23,036</u>
Nonoperating income (expenses):		
Investment income, net	6,553	19,928
Unrealized gains (losses) on trading securities, net (note 1)	(29,664)	15,281
Loss on refinancing of debt	(4,471)	—
Valuation adjustment of swap agreements	(6,915)	980
Other nonoperating expenses, net	(10,837)	(7,883)
Net nonoperating (expenses) income	<u>(45,334)</u>	<u>28,306</u>
(Deficiency) excess of revenues over expenses	<u>(12,048)</u>	<u>51,342</u>

SEATTLE CHILDREN'S HOSPITAL

Statements of Operations and Changes in Net Assets

Years ended September 30, 2008 and 2007

(In thousands of dollars)

	<u>2008</u>	<u>2007</u>
(Deficiency) excess of revenues over expenses, brought forward	\$ (12,048)	51,342
Other changes in unrestricted net assets:		
Unrealized gains on investments, net	—	8,161
Reclassification of investment portfolio to trading (note 1)	—	(15,281)
Net assets released from restriction for capital	1,927	1,602
Transfer to permanently restricted net assets (note 1)	(2,243)	—
Reclassification of cumulative hedge effectiveness	(577)	—
(Decrease) increase in unrestricted net assets	<u>(12,941)</u>	<u>45,824</u>
Changes in temporarily restricted net assets:		
Net realized and unrealized gains (losses) on investments	(22,368)	24,527
Restricted donations	19,739	17,477
Net assets released from restriction	(23,824)	(20,869)
Change in beneficial interest in SCHS	(208)	62
(Decrease) increase in temporarily restricted net assets	<u>(26,661)</u>	<u>21,197</u>
Changes in permanently restricted net assets:		
Investment change, restricted by donors (note 1)	77	(11)
Restricted donations	7,085	6,131
Transfer from unrestricted net assets (note 1)	2,243	—
Change in beneficial interest in SCHS	(7,951)	6,106
Increase in permanently restricted net assets	<u>1,454</u>	<u>12,226</u>
(Decrease) increase in net assets	<u>(38,148)</u>	<u>79,247</u>
Net assets, beginning of year	<u>730,841</u>	<u>651,594</u>
Net assets, end of year	\$ <u><u>692,693</u></u>	\$ <u><u>730,841</u></u>

See accompanying notes to financial statements.

SEATTLE CHILDREN'S HOSPITAL

Statements of Cash Flows

Years ended September 30, 2008 and 2007

(In thousands of dollars)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (38,148)	79,247
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	41,035	39,259
Provision for uncollectible accounts	2,889	2,236
Realized gains on investments, net	(6,588)	(4,377)
Restricted donations	(7,085)	(6,156)
Unrealized losses (gains) on investments, net	59,845	(26,648)
Equity interest in net losses (earnings) of certain investments	4,079	(13,539)
Equity earnings on investments in joint venture, net of cash distributions	(1,230)	472
Change in beneficial interest in SCHS	8,159	(6,168)
Loss on refinancing of debt	4,471	—
Valuation adjustment of swap agreements	7,492	(980)
Changes in assets and liabilities:		
Increase in accounts receivable, net	(16,412)	(1,439)
(Increase) decrease in other current assets	(12,107)	9,426
Decrease in other assets	2,622	2,981
Increase in payables and other liabilities	5,025	17,134
Net cash provided by operating activities	<u>54,047</u>	<u>91,448</u>
Cash flows from investing activities:		
Capital expenditures	(56,011)	(236,423)
Proceeds from sale of investments	94,928	124,734
Purchases of investments	(95,770)	(98,050)
Net cash used in investing activities	<u>(56,853)</u>	<u>(209,739)</u>
Cash flows from financing activities:		
Restricted donations	7,085	6,156
Proceeds from short-term debt	238,540	—
Repayment of short-term debt	(238,540)	—
Repayment of long-term debt	(5,630)	(4,790)
Proceeds from long-term debt	239,340	—
Retirement of long-term debt	(236,275)	—
Payment of deferred financing costs	(3,194)	—
Net cash provided by financing activities	<u>1,326</u>	<u>1,366</u>
Net decrease in cash and cash equivalents	(1,480)	(116,925)
Cash and cash equivalents, beginning of year	<u>9,981</u>	<u>126,906</u>
Cash and cash equivalents, end of year	\$ <u><u>8,501</u></u>	<u><u>9,981</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 13,200	11,814

See accompanying notes to financial statements.

SEATTLE CHILDREN'S HOSPITAL

Notes to Financial Statements

September 30, 2008 and 2007

(In thousands of dollars)

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Seattle Children's Hospital, formerly known as Children's Hospital and Regional Medical Center, (the Hospital) is a not-for-profit regional pediatric medical center and research institute. The Hospital is a member of a group of controlled corporations that have common representation on certain boards of governance. The memberships of the boards of trustees of the Hospital and Seattle Children's Healthcare System (SCHS) are currently identical. The following are affiliates of the Hospital, each of which is a Washington not-for-profit corporation and a 501(c)(3) organization:

Seattle Children's Healthcare System – The parent corporation of the Hospital and affiliated-controlled corporate entities.

Seattle Children's Hospital Foundation (the Foundation) – A corporation established to support SCHS and its affiliates, primarily the Hospital.

Seattle Children's Hospital Guild Association (the Guild Association) – A corporation established to support SCHS and its affiliates, primarily the Hospital.

Seattle Children's Retail (Retail) – A corporation established to support SCHS.

Children's Physicians (CP) – A corporation established to support SCHS through cooperative arrangements with other healthcare organizations.

Substantially all the contributions raised by the Foundation, the Guild Association and Retail have been transferred or have been designated for transfer to the Hospital or to SCHS. Restricted contributions are distributed to the Hospital to comply with the purposes specified by donors.

During the years 2008 and 2007, the Hospital recorded as contributions net transfers from affiliates of \$34,520 and \$25,226, respectively.

(b) Tax Exemption

The Commissioner of the Internal Revenue Service has granted the Hospital exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as an organization formed to operate a hospital for charitable, educational, scientific and medical purposes.

(c) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. Critical estimate areas include the provision for uncollectible accounts and contractual allowances and self-insurance reserves for professional and general liability and workers' compensation.

SEATTLE CHILDREN'S HOSPITAL

Notes to Financial Statements

September 30, 2008 and 2007

(In thousands of dollars)

(d) Cash and Cash Equivalents

Included in cash and cash equivalents are cash equivalents of \$8,478 and \$9,780 as of September 30, 2008 and 2007, respectively, invested in money market funds, which are highly liquid investments with purchased maturities of three months or less, that are readily convertible to known amounts of cash.

(e) Assets Whose Use is Limited

Assets whose use is limited includes designated unrestricted assets set aside by the board of trustees for future capital and program purposes, over which the board of trustees retains control and may at its discretion subsequently use for other purposes. Assets whose use is limited also includes temporarily and permanently restricted assets and assets held by trustees under indenture and other agreements.

Effective September 30, 2007, the Hospital and SCHS changed the classification of their marketable securities and certain alternative investments to trading, resulting in a \$15,281 reclassification from unrestricted net assets to nonoperating income. Prior to this date, these investments were considered available-for-sale securities.

Investment income or losses (including interest and dividend income, realized and unrealized investment gains and losses and earnings from investments accounted for under the equity method) are included as nonoperating income and expenses within excess of revenues over expenses. Effective September 30, 2007, net unrealized gains or losses on trading securities are included in nonoperating income and expenses in the accompanying statements of operations and changes in net assets.

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risks associated with certain investment securities, it is reasonably possible that changes in the value of investments could occur in the near term and that such changes could materially affect the amounts reported in the accompanying balance sheets.

Investments

Investments carried at fair market value include money market funds, corporate stocks and bonds and mutual funds.

Pooled Investments Held at SCHS

Pooled investments held at SCHS represent the Hospital's interest in a pool of investments held and managed by SCHS. Pooled investment amounts represent the Hospital's share of the carrying value of the SCHS investment pool. Investment income and losses from the SCHS investment pool are allocated between SCHS and the Hospital based upon investment balances. The Hospital recognizes the changes in its interest in the SCHS investment pool using a method that is similar to the equity method of accounting.

SEATTLE CHILDREN'S HOSPITAL

Notes to Financial Statements

September 30, 2008 and 2007

(In thousands of dollars)

Investments under Bond Indenture and Other Agreements

Investments under bond indenture and other agreements primarily include assets held by trustees under the terms of the Revenue Bonds, and certain deferred compensation arrangements. Amounts required to meet current liabilities of the Hospital have been reclassified to current assets in the accompanying balance sheets at September 30, 2008 and 2007.

(f) ***Land, Buildings and Equipment***

Land, buildings and equipment are stated at cost, less accumulated depreciation. Improvements and replacements of land, buildings and equipment are capitalized. Maintenance and repairs are expensed as incurred. Interest costs incurred on borrowed funds during construction, net of interest earned on the project funds, are capitalized. In addition, interest is capitalized on those assets that require a period of time to get them ready for their intended use. The Hospital capitalized net interest of \$1,811 and \$1,082 in 2008 and 2007, respectively. Land, buildings and equipment consist of the following at September 30:

	<u>2008</u>	<u>2007</u>
Land and improvements	\$ 61,206	60,653
Buildings and improvements	477,196	451,859
Furniture and equipment	270,261	239,694
Construction in progress	47,526	62,825
	856,189	815,031
Less: Accumulated depreciation	(302,144)	(276,486)
	<u>\$ 554,045</u>	<u>538,545</u>

Construction in progress relates to the renovation of existing buildings and development of certain information technology projects. The Hospital has various commitments for future renovations and development totaling \$2,294 as of September 30, 2008.

(g) ***Depreciation***

Depreciation is provided using the straight-line method, which allocates the cost of the asset ratably over its estimated useful life. An estimated life of 40 years is used for buildings and 8 to 15 years for building and land improvements. Various lives ranging from 4 to 25 years are used for furniture and equipment.

(h) ***Joint Ventures and Investments in Affiliated Companies***

The equity method of accounting is used for joint ventures and investments in affiliated companies in which the Hospital has significant influence, but does not have effective control. Significant influence is generally deemed to exist when the ownership interest in the investee is at least 20% and not more than 50% of net assets, although other factors, such as representation on the investee's

SEATTLE CHILDREN'S HOSPITAL

Notes to Financial Statements

September 30, 2008 and 2007

(In thousands of dollars)

board of directors, are considered in determining whether the equity method of accounting is appropriate.

(i) *Deferred Financing Costs*

Deferred financing costs are included in other assets in the accompanying balance sheets and are amortized over the period the related obligation is outstanding using the effective interest method.

(j) *Net Patient Service Revenues*

Net patient service revenues are reported at the estimated net realizable amounts from patients and third-party payors for services rendered. Approximately 43% and 42% of gross patient service charges for 2008 and 2007, respectively, relate to services rendered to patients covered by the Medicaid program. Provisions for contractual allowances for inpatient services are recorded based on the difference between charges made to these patients and estimated receipts based upon a prospective diagnosis-related groupings (DRGs) system. Payments for Medicaid outpatient services are reimbursed on a percentage of charges or a fee schedule. Provision for contractual allowances under commercial health plans is based on the payment terms of contractual arrangements.

(k) *Other Operating Revenues*

Other operating revenues primarily include revenues from a federal graduate medical education grant, amounts received from Children's University Medical Group (CUMG) and equity earnings from the Hospital's participation in a joint venture.

(l) *Nonoperating Income and Expenses*

Nonoperating income and expenses includes items that management deems to be outside the scope of its primary business. Items consist primarily of investment income or losses and certain expenses related to marketing, community communication and governmental affairs. Effective September 30, 2007, net unrealized gains on unrestricted trading securities are included in nonoperating income and expenses.

(m) *Net Assets, Endowment and Endowment Distribution*

Donations and bequests are reported at fair value at the date of donation. Such amounts are reported as either unrestricted, temporarily restricted or permanently restricted net assets, based on donor stipulations (if any) that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying statements of operations and changes in net assets as net assets released from restriction.

SCHS's endowment consists of separate funds established over many years for a variety of purposes. Endowment fund balances, including funds functioning as endowments, are classified and reported as permanently restricted, temporarily restricted or unrestricted net assets in accordance with donor specifications and the endowment spending policy.

SEATTLE CHILDREN'S HOSPITAL

Notes to Financial Statements

September 30, 2008 and 2007

(In thousands of dollars)

SCHS utilizes the total return concept (income yield and appreciation) in the management of its endowment. SCHS's endowment investment objectives and spending policy are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of spendable income. SCHS's spending policy is to distribute 5% of the twelve-quarter average market value of the endowment. Effective in 2007, endowment yields above or below the amount necessary to meet the spending policy are classified as temporarily restricted; in prior years these amounts were classified as permanently restricted.

According to the terms of each endowment, distributions in accordance with the spending policy support specific programs with either a restricted or unrestricted purpose. Annual support for restricted purposes are classified as temporarily restricted net assets until authorized expenditures occur. Support with an unrestricted purpose is included within unrestricted net assets as other operating revenues in the accompanying statements of operations and changes in net assets. The corpus of endowment funds are either donor restricted or board designated to investment in perpetuity. In the event of a shortfall in endowment corpus resulting from declines in market values, net asset transfers will be made from temporarily restricted funds, to the extent available, and, if not available, from unrestricted funds. During 2008, the Hospital transferred \$2,243 from unrestricted net assets to permanently restricted net assets.

(n) *Reclassifications*

Certain reclassifications have been made to the 2007 information to be consistent with the current year presentation.

(o) *Recently Adopted Accounting Standards*

The Hospital adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109* (FIN 48), on October 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. The adoption of FIN 48 did not have a significant impact on the financial statements of the Hospital.

(p) *New Accounting Pronouncements*

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurement*, (SFAS 157). SFAS 157 defines fair value, establishes a framework for the measurement of fair value and enhances disclosures about fair value measurements. SFAS 157 does not require any new fair value measures. SFAS 157 is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. The Hospital is required to adopt SFAS 157 in 2009. SFAS 157 is required to be applied prospectively, except for certain financial instruments. Any transition adjustment will be recognized as an adjustment to opening net assets in the year of adoption. Management is evaluating the potential impact of SFAS 157, but does not expect SFAS 157 to have a material impact on the financial position, results of operations or cash flows of the Hospital.

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Notes to Financial Statements

September 30, 2008 and 2007

(In thousands of dollars)

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities— including an amendment of FASB Statement No. 115*, (SFAS 159). SFAS 159 permits an organization to measure certain financial instruments at fair value that are not currently required to be measured at fair value. The objective of SFAS 159 is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 permits organizations to choose, at specified election dates, to measure certain items at fair value and report unrealized gains and losses on such items in earnings. SFAS 159 is effective for the Hospital in 2009. Management is evaluating the potential impact of SFAS 159, but does not expect SFAS 159 to have a material impact on the financial position, results of operations or cash flows of the Hospital.

In August 2008, FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds (FSP)*, was issued, and its guidance is effective for fiscal years ending after December 15, 2008. The Hospital will adopt the FSP in 2009. The adoption of the FSP is expected to result in enhanced disclosures regarding the Hospitals endowment activity. The FSP adoption is not expected to impact the Hospitals financial position or change in net assets.

(2) Uncompensated and Under-Compensated Care

Care Provided

The Hospital provides care to patients in its region regardless of the families' ability to pay for those services. Uncompensated and under-compensated care primarily includes the cost of patient care services for charity care and unpaid costs associated with services provided to patients covered under the Medicaid program (Medicaid payment shortfall).

The Hospital provides charity care in accordance with its charity care policy based on family need and maintains records to identify the level of charity care it provides. The determination of family need is evaluated during a patient's course of care and can be updated after care is complete.

The following were the components of uncompensated and under-compensated care, measured at cost, for the years ended September 30:

	<u>2008</u>	<u>2007</u>
Charity care	\$ 8,915	8,214
Medicaid payment shortfall	77,325	57,216
	<u>\$ 86,240</u>	<u>65,430</u>

SEATTLE CHILDREN'S HOSPITAL

Notes to Financial Statements

September 30, 2008 and 2007

(In thousands of dollars)

(3) Investments

Assets Whose Use is Limited

Investments consist of the following at September 30:

	<u>2008</u>	<u>2007</u>
Investments, at fair value:		
Money market	\$ 187	110
Corporate stocks and bonds	17,771	24,024
Mutual funds	126,760	136,480
Other	67	49
	<u>144,785</u>	<u>160,663</u>
Pooled investments held at SCHS	<u>186,860</u>	<u>224,502</u>
Held by trustee, at fair value:		
Principal and interest – money market	9,614	7,338
Project fund – money market	—	3,633
Deferred compensation – mutual funds	7,003	8,620
	<u>16,617</u>	<u>19,591</u>
	<u>\$ 348,262</u>	<u>404,756</u>

Pooled investments held at SCHS are recorded at the Hospital's share of the carrying value of the SCHS investment pool. The SCHS investment pool was invested as follows at September 30 (in percentages):

	<u>2008</u>	<u>2007</u>
Corporate stocks and bonds	6%	8%
Mutual funds	27	30
Alternative investments, at fair value	27	29
Alternative investments, equity method	40	33
	<u>100%</u>	<u>100%</u>

Alternative Investments

Alternative investments include limited partnerships, limited liability corporations, investment trusts, institutional funds and off-shore investment funds. Included in these funds are certain types of financial instruments, including, among others, futures and forward contracts, options, swaps and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments involve varying degrees of risk.

SEATTLE CHILDREN'S HOSPITAL

Notes to Financial Statements

September 30, 2008 and 2007

(In thousands of dollars)

Unrestricted investment return comprises the following for the years ended September 30:

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 7,794	9,617
Realized gains on investments, net	2,838	2,765
Equity interest in net (losses) earnings of certain investments	(4,079)	7,546
Unrealized (losses) gains on trading securities, net	(29,664)	15,281
Unrealized gains on investments, net	—	8,161
Reclassification of investment portfolio to trading	—	(15,281)
	<u>\$ (23,111)</u>	<u>28,089</u>

(4) Related-Party Transactions

Airlift Northwest

Airlift Northwest (ALNW), a not-for-profit 501(c)(3) corporation, whose members are the Hospital, Harborview Medical Center and the University of Washington Medical Center (UWMC), provides aeromedical transportation services in the region. As a member, the Hospital has the rights to 17% of the net assets of ALNW upon dissolution. The Hospital accounts for its investment under the cost method of accounting.

The Hospital provides nursing services to ALNW, at cost, for pediatric patient transport services. During 2008 and 2007, the Hospital was paid \$1,779 and \$1,715, respectively, for the services it provided to ALNW.

Children's University Medical Group

Children's Physicians (CP) and the University of Washington School of Medicine (UWSOM) formed a jointly owned not-for-profit corporation, Children's University Medical Group, in 1986. CUMG is a pediatric practice plan that employs and manages the clinical practices of 379 professional members who are both members of the Hospital's medical staff and full-time pediatric faculty members of the UWSOM. Contractually, CUMG distributes excess funds to faculty and related entities and does not accumulate significant net assets. Accordingly, CP has not recorded any proportional equity interest in CUMG.

The Hospital purchases medical direction services from and provides faculty support to CUMG. During 2008 and 2007, the Hospital paid CUMG \$34,478 and \$27,567, respectively, for these purchased services. The Hospital received payments from CUMG of \$4,539 and \$4,929 in 2008 and 2007, respectively, for the Hospital's share of the Clinical Medicine Fund and expenses it incurs related to plan practice operations.

SEATTLE CHILDREN'S HOSPITAL

Notes to Financial Statements

September 30, 2008 and 2007

(In thousands of dollars)

Providence-Children's Neonatal Services, LLC

The Hospital participates in a jointly owned venture with Providence Everett Medical Center, which operates as Providence-Children's Neonatal Services, LLC (PCNS). The Hospital's ownership interest in PCNS is accounted for using the equity method of accounting. As of September 30, 2008 and 2007, the Hospital's investment balance in PCNS totaled \$7,686 and \$6,456, respectively, which is included in other assets in the accompanying balance sheets. Earnings on the Hospital's investment for 2008 and 2007, totaling \$2,530 and \$228, respectively, is included in other operating revenues in the accompanying statements of operations and changes in net assets.

The Hospital provides clinical management and neonatal nurse practitioner services to PCNS. During 2008 and 2007, the Hospital earned \$1,156 and \$778, respectively, for these services, which are included in other operating revenues in the accompanying statements of operations and changes in net assets.

Seattle Cancer Care Alliance

The Seattle Cancer Care Alliance (SCCA), a not-for-profit corporation, was organized in 1998 by SCHS, the UWSOM and Fred Hutchinson Cancer Research Center for the purpose of offering a comprehensive program of integrated cancer care services. SCCA operates an ambulatory cancer care facility and a 20-bed licensed hospital inside the UWMC. Members of SCCA share equally in the results of its operations.

The Hospital purchases services from SCCA and provides services to SCCA in connection with the SCCA's comprehensive program of integrated cancer care services. During 2008 and 2007, the Hospital purchased services from SCCA incurring \$1,491 and \$1,438, respectively, which are included in purchased services in the accompanying statements of operations and changes in net assets. Additionally, the Hospital provided services to SCCA and recorded other operating revenues of \$66 and \$103 in 2008 and 2007, respectively.

(5) Beneficial Interest in Seattle Children's Healthcare System

The Hospital recognizes an interest in a portion of the net assets of SCHS representing certain temporarily and permanently restricted funds that will ultimately benefit the Hospital. At September 30, 2008 and 2007, the Hospital recorded a beneficial interest in SCHS of \$38,554 and \$46,713, respectively, which corresponds to temporarily and permanently restricted net assets held by SCHS on the Hospital's behalf. The Hospital recognizes changes in this beneficial interest as a change in temporarily and permanently restricted net assets.

SEATTLE CHILDREN'S HOSPITAL

Notes to Financial Statements

September 30, 2008 and 2007

(In thousands of dollars)

(6) Long-Term Debt

Long-term debt consists of the following at September 30:

	<u>2008</u>	<u>2007</u>
Revenue Bonds, Series 1998, interest paid semiannually at rates ranging between 4.3% to 5.25% with annual principal payments ranging from \$3,440 in 2009 to \$4,970 in 2022, net of unamortized discount of \$634 in 2008 and \$714 in 2007, secured by an interest in certain bond funds	\$ 54,276	57,496
Revenue Bonds, Series 2001, interest paid semiannually at rates ranging between 3.5% to 5.375% with annual principal payments ranging from \$1,660 in 2009 to \$2,015 in 2012, net of unamortized premium of \$41 in 2008 and \$60 in 2007, secured by an interest in certain bond funds	9,191	10,790
Revenue Bonds, Series 2006A, interest paid biweekly at variable rate of 3.75% and net of unamortized discount of \$252 in 2007, secured by an interest in certain bond funds	—	71,423
Revenue Bonds, Series 2006B, interest paid biweekly at variable rate of 3.8% and net of unamortized discount of \$265 in 2007, secured by an interest in certain bond funds	—	75,084
Revenue Bonds, Series 2006C, interest paid monthly at variable rate of 3.7% and net of unamortized discount of \$328 in 2007, secured by an interest in certain bond funds	—	89,673
Revenue Bonds, Series 2008A, interest paid monthly at variable rates with annual principal payments ranging from \$305 in 2008 to \$8,935 in 2028, secured by an interest in certain bond funds	72,480	—
Revenue Bonds, Series 2008B, interest paid monthly at variable rates with annual principal payments ranging from \$480 in 2008 to \$5,255 in 2031, secured by an interest in certain bond funds	76,060	—
Revenue Bonds, Series 2008C, interest paid semi-annually at rates ranging from 5.375% to 5.5% with principal payments ranging from \$8,400 in 2029 to \$13,500 in 2035, net of unamortized premium of \$2,017 in 2008, secured by an interest in certain bond funds	90,772	—
	<u>302,779</u>	<u>304,466</u>
Less: Current portion	<u>(5,885)</u>	<u>(5,630)</u>
	<u>\$ 296,894</u>	<u>298,836</u>

SEATTLE CHILDREN'S HOSPITAL

Notes to Financial Statements

September 30, 2008 and 2007

(In thousands of dollars)

Aggregate scheduled principal payments on long-term debt for future years are:

2009	\$	5,885
2010		6,175
2011		6,435
2012		6,725
2013		7,035
Thereafter		269,100
		<hr/>
		301,355
Add: Unamortized net premiums		1,424
		<hr/>
	\$	<u>302,779</u>

Under the terms of the Revenue Bonds and related indenture agreements, the Hospital is required to comply with various covenants, including a requirement to generate net income available for debt service in each year greater than 120% for the Series 2008 and Series 2001 Bonds and greater than 110% for the Series 1998 Bonds, of its debt service for the same year, as defined.

In March 2008, the Hospital advance refunded the Series 2006 Bonds with the proceeds of an interim taxable bank loan and the initial issuance of the Series 2008A Bonds and the Series 2008B Bonds in April 2008, which resulted in a loss on refinancing of debt of \$4,471. In May 2008, the Hospital refinanced the taxable bank loan with the proceeds of the Series 2008C Bonds and the Series 2008A Bonds and Series 2008B Bonds were converted to variable-rate demand securities with no resulting gain or loss.

The Series 2008A and 2008B variable rate demand bonds are subject to optional redemption by the bondholders, in whole or in part at 100% of the principal amount plus accrued interest. The Hospital has a reimbursement agreement and a remarketing arrangement for both the Series 2008A and 2008B variable rate demand bonds for the amount of the outstanding principal plus accrued interest. Under the terms of the reimbursement agreement, the Hospital has three years from the date of redemption, before it is required to pay back any and all amounts owed.

Accounting for Derivative Instruments

Interest rate swap contracts are used to manage the net exposure to interest rate changes in attempting to reduce the overall cost of borrowing over time. Interest rate swap contracts generally involve the exchange of fixed and floating interest rate payments without the exchange of underlying principal (the swap of fixed or floating rates are on a "notional" amount). The Hospital accounts for its interest rate hedging transactions in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, (SFAS 133). SFAS 133 requires that derivative instruments be recorded on the balance sheet as either an asset or liability measured at its individual fair market value. Changes in the derivative instrument's fair market value are recognized in earnings unless certain specific hedge accounting criteria are met. Accounting for a qualifying fair value hedge (effective hedge) allows a derivative instrument's gains and losses to be reported as part of the change in net assets (versus the statement of operations) to the extent effective.

SEATTLE CHILDREN'S HOSPITAL

Notes to Financial Statements

September 30, 2008 and 2007

(In thousands of dollars)

In connection with the issuance of the 2006 Series Bonds, the Hospital entered into two interest rate swap agreements (Swap Agreement). As part of the refinancing of the 2006 Series Bonds and issuance of the 2008 Series Bonds, the swaps were transferred to the 2008 Series Bonds. Under each Swap Agreement, the Hospital is obligated to pay a fixed rate per annum (3.48% on both the Series 2008A Bonds and the Series 2008B Bonds) on a notional amount equal to the outstanding principal amount of the applicable series of bonds and receives a variable payment computed as 68% of the one month London Interbank Offered Rate (LIBOR) rate. The bonds' variable-rate coupons are based upon rates determined by remarketing agents on a weekly basis.

Due to the refinancing of the Series 2006A and Series 2006B Bonds, the Swap Agreements no longer qualify for hedge accounting treatment. As a result, the amounts of the mark-to-market value that were formerly accounted for as part of the change in net assets are now recorded as a noncash adjustment to nonoperating income (expenses). Cumulative effective hedge amounts totaling \$577K that were previously recorded to net assets have been reported in nonoperating income as a gain in valuation adjustment of swap agreements.

As of and for the years ending September 30, 2008 and 2007, both of the Hospital's swaps were ineffective, for which the change in value of \$6,915 and \$980, respectively, were reported as a component of nonoperating income (expenses) in the accompanying combined statements of operations and changes in net assets. In measuring the swaps at fair value, the Hospital has recorded a liability of \$5,935 as of September 30, 2008 and an asset of \$1,558 as of September 30, 2007. These amounts have been recorded in other liabilities and other assets, respectfully, in the accompanying combined balance sheets. The liability recorded at September 30, 2008 indicates the amount of the payment the Hospital would need to make if the swaps were terminated as of September 30, 2008.

The Credit Support Annex for the interest rate swaps requires either party to post collateral if the fair market value of the swap is negative to them and exceeds the minimum threshold as defined in the Credit Support Annex. The amount of collateral required to be posted is equal to the difference of the fair market value over the minimum threshold. As of September 30, 2008, the negative value of the Hospital's swaps was within the minimum threshold and hence the Hospital was not required to post any related collateral. On December 31, 2008, the negative value of the Hospital's swap exceeded the minimum threshold by \$12,706 which required the Hospital to post collateral of the same amount.

(7) Self-Insurance

The Hospital has purchased professional and general liability insurance on a claims-made basis. The Hospital is self-insured for the deductible portion of its insurance coverage and for unreported incidents and accrues an actuarial estimate for claims within its deductible portion and for unreported incidents. At September 30, 2008 and 2007, the liability for future costs of professional and general liability claims was \$4,632 and \$6,176, respectively. At September 30, 2008 and 2007, \$2,706 and \$3,396, respectively, of this liability was included as long term within deferred compensation and other liabilities with the remainder within accounts payable in the accompanying balance sheets.

The Hospital is self-insured for workers' compensation. The Hospital also carries an excess coverage policy for its workers' compensation program. The Hospital has accrued an actuarial estimate for claims

SEATTLE CHILDREN'S HOSPITAL

Notes to Financial Statements

September 30, 2008 and 2007

(In thousands of dollars)

and unreported incidents. At September 30, 2008 and 2007, the workers' compensation obligation included within accrued salaries, wages and benefits was \$2,629 and \$2,530, respectively, in the accompanying balance sheets.

(8) Commitments and Contingencies

(a) Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates. Total rental expense in 2008 and 2007 was \$5,914 and \$6,030, respectively.

Operating lease commitments for future years are:

2009	\$	4,942
2010		4,836
2011		2,918
2012		2,590
2013		1,435
Thereafter		174
	\$	<u>16,895</u>

The Hospital leases medical office space from SCHS. Rental expense paid to SCHS during 2008 and 2007 was \$1,187 and \$1,332, respectively.

(b) Regulatory Environment and Litigation

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital, in all material respects, is in compliance with the fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

(c) Other Litigation

The Hospital is subject to litigation arising in the normal course of business. After consultation with legal counsel, management believes that these matters will be resolved without material adverse effect on the Hospital's future financial position or results of operations.

SEATTLE CHILDREN'S HOSPITAL

Notes to Financial Statements

September 30, 2008 and 2007

(In thousands of dollars)

(9) Retirement Plan and Deferred Compensation

The Hospital participates in the SCHS Employees' Retirement Plan (the Plan), a defined contribution plan. The Hospital contributes 4% of eligible employee salaries, which increases to 6% upon the employee becoming vested. The Plan also allows employees to contribute. Employee contributions are matched by the Hospital at 25% of the first 4% of eligible compensation contributed by the participant to the Plan. The Plan covers substantially all Hospital employees. Pension expense during 2008 and 2007 totaled \$10,440 and \$7,544, respectively.

Deferred compensation arrangements are maintained by the Hospital for the benefit of eligible employees. Substantially all amounts deferred under these arrangements are held until such time as these funds become payable to the participants. Assets related to deferred compensation totaling \$7,003 and \$8,620 at September 30, 2008 and 2007, respectively, are available to general creditors of the Hospital and are included within assets whose use is limited in the accompanying balance sheets. The deferred compensation liability is included within deferred compensation and other liabilities in the accompanying balance sheets.

(10) Disclosure about Fair Value of Financial Instruments

The carrying amounts reported on the balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value of these instruments due to their short-term nature.

Fair values of investments are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. The fair value of alternative investments, included within pooled investments held at SCHS, is reported based on information provided by the fund managers.

The fair value of long-term debt, estimated based on the quoted market prices for similar issues, was \$290,683 and \$309,065 at September 30, 2008 and 2007, respectively. The carrying value was \$302,779 and \$304,466 at September 30, 2008 and 2007, respectively.

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30:

	<u>2008</u>	<u>2007</u>
Healthcare services	\$ 7,181	21,250
Trusts and annuities	2,046	2,255
Research	16,598	28,920
Purchase of equipment and other property	557	618
	<u>\$ 26,382</u>	<u>53,043</u>

As discussed in note 1, SCHS has a spending policy to distribute 5% of the twelve-quarter average market value of the endowments to the programs for which the endowments specifically support. In accordance with the spending policy, the difference, whether positive or negative, between the annual yields on the

SEATTLE CHILDREN'S HOSPITAL

Notes to Financial Statements

September 30, 2008 and 2007

(In thousands of dollars)

endowment funds and the 5% annual spending policy distribution are included in temporarily restricted net assets. These amounts are tracked by individual endowment and are primarily included in healthcare services and research above. The cumulative amounts related to the difference in annual total return and the spending policy at September 30, 2008 and 2007, were a net deficiency of \$6,715 and a net excess of \$18,777, respectively. To the extent that future excess earnings are not sufficient to cover any deficiency, the Hospital will use funds from unrestricted net assets to replenish the deficiency.

Permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable to support the following at September 30:

	<u>2008</u>	<u>2007</u>
Healthcare services	\$ 96,485	99,268
Research	65,938	61,701
	<u>\$ 162,423</u>	<u>160,969</u>

(12) Functional Expenses

Functional expenses were as follows for the years ended September 30:

	<u>2008</u>	<u>2007</u>
Healthcare services	\$ 501,302	406,878
General and administrative	44,256	31,499
Research	60,614	53,823
	<u>\$ 606,172</u>	<u>492,200</u>

(13) Concentration of Credit

The Hospital provides services to its patients insured under third-party payor agreements. The composition of patient accounts receivable was as follows at September 30 (in percentages):

	<u>2008</u>	<u>2007</u>
Medicaid	43%	42%
Regence Blue Shield	15	13
Premera Blue Cross	12	8
Other	30	37

SEATTLE CHILDREN'S HOSPITAL

Notes to Financial Statements

September 30, 2008 and 2007

(In thousands of dollars)

(14) Subsequent Events

In November 2008, the Hospital and SCHS formed two Limited Liability Companies, Seattle Children's Research Holdings LLC (SCRH) and Seattle Children's Research Investors LLC (SCRI). SCRH was formed to develop, construct, lease and operate portions of the Hospital's research facility. The Hospital is the sole member of SCRH. SCRI was formed to facilitate the development of the research facility by SCRH by making loans to certain investment funds in connection with the New Market Tax Credit financing of the development of the research facility. SCRI is wholly owned by the Hospital and SCHS.

Since September 30, 2008 major U.S. and foreign stock indices, including the Dow Jones, the S&P and the NASDAQ, have experienced significant declines. Management is monitoring investment market conditions and the impact such declines are having on the investment portfolio. Due to the volatility of the U.S. and world economics and financial markets as of the date of this report, there is uncertainty regarding the long-term impact the current declines will have on the investment portfolio. While the Hospital's investment portfolio is diversified, it too has experienced significant declines in the value since year end.



KPMG LLP
Suite 900
801 Second Avenue
Seattle, WA 98104

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

The Board of Trustees
Seattle Children's Hospital:

We have audited the financial statements of Seattle Children's Hospital (a Washington not-for-profit corporation and an) (the Hospital) as of and for the year ended September 30, 2008, and have issued our report thereon dated January 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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



This report is intended solely for the information and use of management, the board of trustees, others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 14, 2009



KPMG LLP
Suite 900
801 Second Avenue
Seattle, WA 98104

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

The Board of Trustees
Seattle Children's Hospital
Seattle, Washington:

Compliance

We have audited the compliance of Seattle Children's Hospital (the Hospital) 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, 2008. The Hospital's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

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

In our opinion, Seattle Children's Hospital 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, 2008.

Internal Control over Compliance

The management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with the requirements that could have a direct and material effect on a major federal program 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 entity's internal control over compliance.



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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's 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.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Hospital as of and for the year ended September 30, 2008, and have issued our report thereon dated January 14, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 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.

This report is intended solely for the information and use of the board of trustees, the Hospital's management, others within the entity, 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.

KPMG LLP

January 23, 2009, except as to the schedule
of expenditures of federal awards, which
is as of January 14, 2009

SEATTLE CHILDREN'S HOSPITAL

EIN #91-0564748

Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

<u>Award</u>	<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Pass-through grantor's number</u>	<u>Grant number</u>	<u>Federal expenditures</u>
Research and development awards:					
41291001	Agency Healthcare Research and Quality Childhood Chronic Illness	93.226	—	5 R01 HS013384-04	\$ 272,912
	Subtotal – 93.226 Research on Healthcare Costs, Quality and Outcomes				272,912
Centers for Disease Control:					
41336003	University of Washington: Barriers to Personal Flotation Device Use Among Adult Boater An Evaluation of Key Factors for Intervention	93.136	478765	5 R49 CE000197-04	5,990
41449001	Disability From Pediatric TBI	93.136	439243	5 R49 CE 001021-02	20,505
	Subtotal – 93.136 Injury Prevention and Control Research and State and Community Based Programs				26,495
Children's Hospital Los Angeles:					
41381003	Bowel/Bladder Management for Children with Spina Bifid:	93.184	8027-RGP003796-02, PO 113829	417/AUCD RTOI 2005-5/6/-03	26,804
	Subtotal – 93.184 Disabilities Prevention				26,804
41423001	Intervention for Individuals with Fetal Alcohol Syndrome: Transition Science	93.283	—	5 U01 DD000038-02	330,044
Boston University:					
41368005	Mass. Center for Birth Defects Research and Prevention (Physcosocial Outcomes in Children with Craniofacial Anomalies)	93.283	RA208036BAJ	INTF3122H25RFR3AW001	14,470
	Subtotal – 93.283 Centers for Disease Control and Prevention_Investigations and Technical Assistance				344,514
King County:					
41266005	Antiretroviral Drug Resistance Testing	93.944	D3233D	R18 CCU021039-01	4,482
	Subtotal – 93.944 Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance				4,482
University of Washington:					
41324003	Monitoring of Risk Factors for Late-Onset Hearing Loss Among Children	99.998	387777	AUCD #408	107,313
	Subtotal – 99.998				107,313
Department of Health and Human Services:					
41366004	University of Iowa: BrAIST	93.846	1000551320	1 R01 AR052113-01A1	7,949
	Subtotal – 93.846 Arthritis, Musculoskeletal and Skin Diseases Research				7,949
Department of Social & Health Services					
University of Washington:					
41308003	FAS Diagnosis & Prevention Network	93.778	TBD	0565-74754	(1,474)
41482001	FAS Diagnostic and Prevention Network	93.778	431387	0765-18784	6,235
	Subtotal – 93.778 Medical Assistance Program				4,761
Federal Drug Administration:					
41301001	Ketoralac in Surgical Infants: Pharmacok	93.103	—	R01 FDR001815-02-2	52,756
41335001	Triostat in Children During CPB	93.103	—	5R01 FD001971-03	55,350
41283001	University of Medical and Dental, New Jersey Phase II Trial Aminopterin in Adults and Children with Refractory Acute Leukemi	93.103	PO#140782	FDR-001754-02-1	5,123
	Subtotal – 93.103 Food and Drug Administration_Research				113,229

SEATTLE CHILDREN'S HOSPITAL

EIN #91-0564748

Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

<u>Award</u>	<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Pass-through grantor's number</u>	<u>Grant number</u>	<u>Federal expenditures</u>
41341009	Fogarty International Center (FIC): PKD2 involvement in the Btk-PKCβ-NFκB Pathway	93.989	—	5 R03 TW007322-03	\$ 47,914
41266012	Prevention of HIV Resist to Nevirapine in Pregnancy	93.989	—	5 R03 TW005704-03	107,113
	Subtotal – 93.989 International Research and Research Training				155,027
41442001	Health Resources and Services Administration: University of Washington Collaborative Adolescent Medicine	93.110	—	1 T20 MC07466-01-00	15,234
41417001	University of Washington: Pediatric Pulmonary Training Center	93.110	126671	5 T72 MC00007-16-00	60,110
	Subtotal – 93.110 Maternal and Child Health Federal Consolidated Programs				75,344
41414001	National Institute of Neurological Disorders and Stroke: GABA-A Receptor Function in Pediatric Focal Cortical Dysplasia	93.853	—	5 K08 NS052454-04	184,334
41485001	Mechanisms of Neocortical Development Regulated by Tbr1 Children's Hospital Cincinnati	93.853	—	7 R01 NS050248-04	193,204
41351009	Childhood Absence Epilepsy: Rx, PK-PD-Pharmacogenetic:	93.853	CHMC #513	5 U01 NS045911-03	4,121
41367003	Childhood Absence Epilepsy: Rx, PK-PD-Pharmacogenetic:	93.853	CHMC# 513	5 U01 NS045911-03	(9,922)
	Subtotal – 93.853 Extramural Research Programs in the Neurosciences and Neurological Disorders				371,737
41475004	National Science Foundation: SGER: Gold Standard Set for Functional Annotation of Microbial Hypothetical Protein	47.074	—	EF-0748739	32,491
	Subtotal – 47.074 Biological Sciences				32,491
41354011	National Cancer Institute: Directed Protein Evolution for Design of LAGLIDADGs with Novel Recognition Specification	93.310	—	1 RL1 CA133832-01	391,070
	Subtotal – 93.310 Trans-NIH Research Support				391,070
41267008	Health Outcomes for Hodgkin Disease Survivors Children's Hospital of Philadelphia	93.393	—	5 R01 CA106750-04	276,738
41267006	Paternal Exposures and Sporadic Bilateral Retinoblastoma Fred Hutchinson Cancer Research:	93.393	20541-05-06	5 R01 CA081012-05	1,279
41335010	Cell Metabolism & Myc Induced Growth, Death, & Neoplasia	93.393	0000627394	5 R01 CA106650-03	27,856
41458001	TGF-β Signaling and Colon Cancer	93.393	0000624664	R01 CA115513-01A2	8,787
	Subtotal – 93.393 Cancer Cause and Prevention Research				314,660
41388002	Exercise and Fitness in Childhood Cancer Survivors Children's Hospital Los Angeles	93.395	—	5 R21 CA106960-02	1,007
41331003	New Approaches to Neuroblastoma Therapy Cleveland Clinic Lerner College	93.395	CA81403	CA81403	4,585
41268019	Informed Consent in Pediatric Phase I Cancer Trials Fred Hutchinson Cancer Research:	93.395	867038641101	1 R01 CA122217-01A1	11,648
41457001	Social and Physical Activity of Childhood Cancer Survivors, Project A	93.395	620291	5 R21 CA104123-02	3,382
41369008	Social and Physical Activity of Childhood Cancer Survivors, Project B	93.395	0000602267	1 R21 CA104123-01A2	17,833
	National Childhood Cancer Foundation:				
41276003	Children's Oncology Group Chair	93.395	12764	U10 CA98543-02	22,739
41276004	Children's Oncology Group Chair-Patient Reimbursees	93.395	98543-1062	U10 CA98543-03	78,337
41331007	Children's Oncology Group Phase I Consortium	93.395	16813	U01 CA97452-06	16,239
41331002	Children's Oncology Group Phase I Patient Enrollmen	93.395	97452-1015	U01 CA97452-06	26,656
41276005	Children's Oncology Group Study Chair-EuroEwings Sarcom	93.395	16537	5 U10 CA 098543-05	4,843
41276012	Children's Oncology Group Study Chair-ARST/STS	93.395	16489	U10 CA098543-05	17,897
41268012	National Childhood Cancer Foundation Member Institution Agreemen	93.395	4005/CA13593/U10CA13593	4005/CA13593/U10CA13593	224

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41267010	St Jude Children's Research Hospital: Childhood Cancer Survivor Study	93.395	7237584	5 U24 CA055727-13	\$ 88,724
41268011	Pediatric Brain Tumor Consortium/St. Jude	93.395	5 U01 CA81457-10	5 U01 CA81457-10	(320)
41268005	Pediatric Brain Tumor Consortium	93.395	5 U01 CA81457-09	5 U01 CA81457-09	83,528
	Subtotal – 93.395 Cancer Treatment Research:				377,322
41341001	Model for Gene Therapy in X-linked Agammag	93.396	—	5 R01 CA081140-11	221,598
	Subtotal – 93.396 Cancer Biology Research				221,598
	Fred Hutchinson Cancer Research:				
41369002	Cancer Center Support Senior Leadership	93.397	0000623962	5 P30 CA015704-34S3	37,646
41457002	Transdisciplinary Research on Energetics and Cancer	93.397	626764	5 U54 CA116847-02	4,483
	University of WashingtonP:				
41425004	Fitness, Fatness and Breast Cancer Biomarkers in Overweight Adolescent Girl	93.397	348638	5 U54 CA116847-02	(195)
	Subtotal – 93.397 Cancer Centers Support Grants				41,934
41508001	Regulation of Telomerase by NFX1	93.398	—	1 K08 CA131171-01	9,891
	Subtotal – 93.398 Cancer Research Manpower				9,891
	National Center Complementary and Alternative Medicine:				
	University of Washington:				
41262019	Virologic Study of Children with Colds:	93.213	458853	5 U01 AT002400-02	15,704
	Subtotal – 93.213 Research and Training in Complementary and Alternative Medicine				15,704
	National Center for Research Resource:				
41354013	Northwest Genome Engineering Consortium Component 1 of 11	93.310	—	I UL1 RR024921-01	228,053
	Subtotal – 93.310 Trans-NIH Research Support				228,053
	University of Washington:				
41463001	Differences in Morphine Pharmacokinetics between Latino and Non-Latino Caucasio Pediatric Patients	93.333	NCRR CREFF	5 M01 RR00037-47	7,780
	Subtotal – 93.333 Clinical Research				7,780
41489003	CODEHOP: Unique web-based technology for gene discovery	93.389	—	5 R24 RR021346-04	176,697
41489002	Herpesvirus latency and reactivation in macques model:	93.389	—	7 R24 RR023343-02	170,183
	University of Washington:				
41339028	General Clinical Research Center	93.389	424934	5 M01 RR00037-47	(129,603)
41339102	Pediatric Clinical Research Center	93.389	476942	1 UL1 RR025014-01	1,528,601
41339024	TDN/General Clinical Research Center	93.389	895977	2 M01 RR00037-44	295,283
	Subtotal – 93.389 National Center for Research Resources				2,041,161
	National Center on Minority Health:				
	Neighborhood House:				
41447009	Partnership for Fitness and Healthy Living in Marginalize	93.307	NH325-08-01	1 R24 MD002768-01	5,705
	Subtotal – 93.307 Minority Health and Health Disparities Research				5,705
	National Heart, Lung, & Blood Institute:				
41341016	Cell and Virus CORE	93.837	—	3 PL1 HL092557-01S1	358,022
41335014	FcR Mutations in Kawasaki Disease	93.837	—	5 R21 HL090558-02	248,873
41341017	Gene Repair in Murine Hematopoietic Stem Cell:	93.837	—	5 RL1 HL092553-02	426,743
41341019	Interdisciplinary Training in Genome Engineering:	93.837	—	1 RL9 HL092555-01	7,364
41441003	Parinfluenza Virus Infection in Hematopoietic Cel	93.837	—	1 K23 HL091059-01	61,018
41335011	Thyroid Regulation in the Developing Heart, NIF	93.837	—	7 R01 HL060666-08	(17)

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41469002	New England NERI Research: Trial of Beta Blocker Therapy vs. Angiotensin II	93.837	SITE 37		\$ 44,817
41447006	University of Cincinnati: Modifying Dietary Behavior in Adolescents with Elevatec	93.837	COEUS # 005422 SAP # 1005891	1 R01 HL088567-01A1	21,701
41335002	University of Utah: Animal Models of Diabetic Card Complic	93.837	2103112-01	U01 HL070525	—
	Subtotal – 93.837 Heart and Vascular Diseases Research				1,168,521
41339030	Early Antipseudomonal Therapy In Cystic Fibrosis	93.838	—	5 U01 HL080310-03	1,285,153
41243003	Internet Based Patient Centered Asthma Management System	93.838	—	5 R01 HL079402-04	89,060
41456001	Mechanistic Studies of Pulmonary Toxicity of Styrene	93.838	—	5 R01 HL080226-03	514,489
41254006	Noninvasive Measures in Wheezy Infants & Toddlers	93.838	—	5 K23 HL077626-04S1	155,473
41269016	John Hopkins University: Genetic Modifiers of Cystic Fibrosis	93.838		1 R01 HL68927-01	103
41269021	University of Washington: Quality of Life in Adults & Adolescents with Severe Cystic Fibrosi	93.838	217484	5 K23 HL072017-04	7,625
41347006	Staph Pneumonia SCCOR Project	93.838	790591	1 P50 HL073996-01	149,859
	Subtotal – 93.838 Lung Diseases Research				2,201,762
41341007	Lentiviral GeneTherapy of XLA	93.839	—	5 R01 HL075453-05	245,620
41311004	Modulation of Immune Responses for Hemophilia Following	93.839	—	5 R01 HL082600-04	478,336
41311001	Non-Viral Gene Medicine for Hemophilia	93.839	—	5 R01 HL069049-05	(7,235)
41311007	Ultrasound-Mediated Gene Therapy for Hemophilia B	93.839	—	1 R21 HL089038-01A1	4,224
41341014	Fred Hutchinson Cancer Research: Stem Cell Transplantation: Core A, Immune Function Studie	93.839	0000617072	2 P01 HL036444-26	117,583
41304002	Puget Sound Blood Center: B-Cell Reponses Clotting	93.839	SUBGRANT #916	1 R01 HL071093-04	9,751
	Subtotal – 93.839 Blood Diseases and Resources Research				848,279
41447001	National Institute Diabetes, Digestive, and Kidney Disease: Body Fat and Hormones in Adolescent Obesity Treatment	93.847	—	7 K23 DK060476-06	7
41334014	Benaroya Research Institute at Virginia Mason NW Clinical Center for Type One Diabetes – TrialNe	93.847	FY07.01755-07.A40551	5 U01 DK061034-07	2,268
41334008	Type One Diabetes Genetics Consortiur	93.847	3215.04, 3215.05, SITE 4008	U01 DK062418	(2,257)
41334005	George Washington University TrialNet Clinic Agreement Affiliate #307	93.847	GWU PTA#23301-2-CCLS20127A	1 U01 DK61055	64,137
41339026	University of Washington: Molecular Therapy Core Center – Admin Core	93.847	239400	5 P30 DK47754-13	41,205
41339027	Molecular Therapy Core Center-Human Core	93.847	829309	2 P30 DK047754-11	45,472
	Subtotal – 93.847 Diabetes, Endocrinology and Metabolism Research				150,832
41513001	Enhanced Community-Based Health Promotion Program for Overweight Children	93.848	—	1 K23 DK081734-01	13,702
41256002	Molecular Mechanisms in Renal Inters Fil	93.848	—	5 R01 DK054500-10	368,629
41319013	Benaroya Research Institute at Virginia Mason Clinical Research Network on Non-Alcoholic Seatoheaptiti:	93.848	FY07.01864-01.A40559	7 U01 DK061728-07	52,586
41319012	Children's Hospital-Pittsburgh: Multi-Center Group to Study Acute Liver Failure in Childrei	93.848	19811-056078-100	5 U01 DK072146-02	10,938
41413001	EMMES Corporation: Studies of Pediatric Liver Transplantation (Split)	93.848	1 U01 KD061693	1 U01 DK061693	115
41319010	John Hopkins University: Pegylated Interferon +/- Ribavirin for Children with HCV	93.848	8403-23602-2	5 U01 DK067767-04	(1,072)

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41334011	University of Washington: Quality of Life of Overweight Youth: A Multicultural View	93.848	300611	R01 DK071101-01A2	\$ 4,303
	Subtotal – 93.848 Digestive Diseases and Nutrition Research				449,201
41282006	Chronic Kidney Disease in Survivors of Hematopoietic Cell	93.849	—	1 R01 DK080860-01A1	8,993
41282002	K-23 Renal Injury After Transplant	93.849	—	5 K23 DK63038-05	148,691
41395004	Maternal Microchimerism in Renal Disease	93.849	—	5 R21 DK071911-02	(47)
41444003	Microvascular Endothelial Cells in the Pathogenesis of	93.849	—	1 K08 DK080926-01	10,785
41233002	Proteins as Signals in Urethelial Cell	93.849	—	5 R01 DK062251-05	(56,741)
41365005	Renal Transplant and Subclinical Herpesvirus Infectior	93.849	—	5 K23 DK068204-04	116,631
41401003	Role of CD36 in Progressive Renal Fibrosis	93.849	—	5 K08 DK073497-03	116,340
41383015	Childrens Mercy Hospitals and Clinic Chronic Renal Insufficiency in NAPRTCS Patients	93.849	05-0016	5 U01 DK066143-03	13,278
41471001	Fred Hutchinson Cancer Research: Function of Human and Mouse Beta-globin locus Control	93.849	0000636488	2 R01 DK044746-16	117,228
41383016	Stony Brook University: Optimal Treatment of Focal Segmental Clomeruloscleroi	93.849	40749	5 U01 DK063385-02	1,500
41474001	Optimal Treatment of focal segmental Clomeruloscleroi	93.849	44361	5 U01 DK063385-02	10,195
41233004	University of Washington: Evaluation of Heterogeneity...Recombinant Modulators	93.849	403226	5 U01 DK065202-04S1	60,120
41256003	Vanderbilt University Medical: Scavenger Receptors in Renal Fibrosis	93.849	VUMC 8991-R	5 P50 DK044757-15	33,344
	Subtotal – 93.849 Kidney Diseases, Urology, and Hematology Research				580,317
41488001	National Institute Allergy and Infectious Disease: Role of phase-variable DNA methylase in virulence of Haemophilus Influenza	93.855	—	5 R21 AI072459-03	110,976
	Subtotal – 93.855 Allergy, Immunology and Transplantation Research				110,976
41266025	Social and Scientific Systems Institute: International Maternal Pediatric Adolescent AIDS	93.242	BRS-IMPCT-Q-06-00106-T001	1 U01 AI068632-01	234,883
41266026	International Maternal Pediatric Adolescent AIDS	93.242	BRS-IMPCT-Q-06-00106-T002	1 U01 AI068632-01	16,874
	Subtotal – 93.242 Mental Health Research Grants				251,757
41262012	Fred Hutchinson Cancer Research: Respiratory Viruses and Airflow Obstruction After HCT	93.838	636673	5 R01 HL081595-03	35,145
	Subtotal – 93.838 Lung Diseases Research				35,145
41266020	Etiology of Mastitis in HIV-1 Infected Women	93.855	—	5 R21 AI65288-02	104,065
41461001	Eukaryotic-type signaling mediates two-component regulation	93.855	—	5 R01 AI070749-02	364,838
41402007	FoxP3 Structure, Function, and Regulatory Activity ir	93.855	—	5 K08 AI063267-02	133,799
41391002	HHV-6 and CNS Disease Following Stem Cell Transplan	93.855	—	5 R01 AI057639-04	274,268
41341018	Lentiviral Gene Therapy for Wiskott Aldrich Syndrome	93.855	—	1 R56 AI071163-01A1	466,385
41266024	Mechanism/predictors of genital rectal HIV shedding during	93.855	—	5 R01 AI071212-03	306,642
41491002	Persistent HIV-1 Replication in the Respiratory Trac	93.855	—	1 K23 AI077357-01	43
41484001	Quantifying Protein Predictors of Macrophage Responses	93.855	—	5 K08 AI056092-06	96,689
41266019	Reservoirs of Drug-Resistant HIV-1	93.855	—	5 R01 AI058723-04	282,632
41354007	Targeted Gene Repair of Primary Immune Deficiencie:	93.855	—	5 R21 AI064581-02	(21,660)
41341010	Benaroya Research Institute at Virginia Mason TSLP Receptor in the Regulation of B Cell Developmen	93.855	01707-06	5 R01 AI044259-08	35,353
41307005	Children's Hospital Boston: Safety in Immunomodulatory Functions of Campath-1H (PC-01	93.855	0000204850	5 U01 AI055801	40,300

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	Fred Hutchinson Cancer Research:				
41395008	Alloimmunity in Autoimmune Disease	93.855	628149	5 R01 AI045659-08	\$ 4,761
41315003	Core B: Lab Core	93.855	629384	5 P01 AI030731-17	14,361
41395012	Pregnancy, Microchimerism, and Autoimmune Disease	93.855	631389	2 R01 AI041721-02	12,130
	Hackensack University Medical Center:				
41382024	Immune Tolerance After Severe Immunosuppression and Ster	93.855	1 R34 AI1071996-01		1,645
41402004	Immune Tolerance after Severe Immunosuppression and Ster University of Washington:	93.855	1 R34 AI071996-01	1 R34 AI071996-01	(985)
41266022	Occurrence and Outcome of Dual HIV-1 Infection	93.855	140719	2 R01 AI047734-08	6,445
	Subtotal – 93.855 Allergy, Immunology, and Transplantation Research				2,121,711
41347004	Novel Signal Transduction Pathway in GBS	93.856	—	5 R01 AI056073-05	103,850
41411001	Penicillin Binding Protein in GBS	93.856	—	5 R01 AI052299-05	(35,567)
41386001	Type 1 Fimbrial Var in E coli 018:K1:H7	93.856	—	5 K08 AI057737-05	97,788
41315007	University of California, San Francisco Testing for HHV-8 Antibodies	93.856	HHV8	U01 AI34989	871
	Subtotal – 93.856 Microbiology and Infectious Diseases Research				166,942
41347010	Academic Peds Training Grant	93.865	—	2 T32 HD007233-26	218,044
	Subtotal – 93.865 Child Health and Human Development Extramural Research				218,044
	St Louis University:				
41315006	HerpeVac Trial for Woman	N01-AI-45250	PROTOCOL 208141/039	N01-AI-45250	1,240
	Subtotal – N01-AI-45250				1,240
	Group Health Cooperative of Puget Sound:				
41262022	Vaccine and Treatment Evaluation Units (VTEUs): Evaluation of Control Measures Against Disease Other Than AIDS	N01-AI-80004	200813463	HHSN272200800004C	21,754
	Subtotal – N01-AI-80004				21,754
	University of Alabama at Birmingham:				
41262016	A Retrospective Chart Review to Assess the Safety of Oseltamivir (TAMFLU)	N01-AI-30025	1210889	N01-AI-30025	1,706
41262015	Clinical Trials for Antiviral Therapies	N01-AI-30025	N01-AI-30025	N01-AI-30025	4,575
	Subtotal – N01-AI-30025				6,281
	Immune Deficiency Foundation (PIRC):				
41402005	A Cell Intrinsic Role For FOXP3 in the Human Immune System	N01-AI-30070	N01-AI-30070	N01-AI-30070	100,636
	Subtotal – N01-AI-30070				100,636
	Group Health Cooperative of Puget Sound:				
41262022	Vaccine and Treatment Evaluation Units (VTEUs): Evaluation	N01-AI-80004	200813463	HHSN272200800004C	26,268
	Subtotal – N01-AI-80004				26,268
	National Institute Arthritis Musculoskeletal and Skin Diseases:				
41382023	Early Aggressive Therapy in Juvenile Idiopathic Arthritis	93.846	—	1 R01 AR049762-01A2	1,053,296
41395015	Mechanisms of Tolerance to Renal Maternal Microchimerism	93.846	—	1 R01 AR051545-01A2	288,732
	Subtotal – 93.846 Arthritis, Musculoskeletal and Skin Diseases Research				1,342,028
	Duke Clinical Research Institute:				
41382014	Prevention of Cardiovascular Complications of Pediatric	N01-AR22265	SPS# 116457	N01-AR-2-2265	6,882
	Subtotal – N01-AR22265				6,882

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	National Institute Child Health and Human Development: University of Washington:				
41266011	Women's HIV Pathogenesis Program	93.864	980045	5 P01 HD40540-05	\$ 12,689
	Subtotal – 93.864 Population Research				12,689
41392005	Collaborative Pediatric Critical Care Research Network	93.865	—	5 U10 HD049945-03	390,207
41341002	B-Cell Development & Signaling-BTK	93.865	—	2 R01 HD037091-11	341,422
41447005	Behavioral Skill Adherence in Pediatric Obesity Treatment	93.865	—	1 R21 HD054871-01A1	64,717
41416001	Cerebral Edema in Pediatric Diabetic Ketoacidosis	93.865	—	5 R21 HD049832-02	77,136
41325002	Genetic Defects of Immunity	93.865	—	4 R37 HD17427-38	434,025
41266004	HIV Exposure during Chemo	93.865	—	5 R01 HD040102-02	30,044
41281004	Homozygosity Mapping of oculo-Oto-Facial Dysplasia	93.865	—	5 R03 HD050631-2	22,023
41243004	Media Impact on Preschool Behavior	93.865	—	1 R01 HD56506-01A2	12,988
41368003	Neurodevelopment Among Infants with Deformational	93.865	—	5 R01 HD046565-04	520,631
41439001	Short Term Training for Minority Students	93.865	—	5 T35 HD007446-15	36,601
	Creare Inc.:				
41432001	A Device for Stereotypy Quantification	93.865	40164	5 R44 HD044369-03	(658)
	University of Washington:				
41256004	Child Health Research Center	93.865	PO 330404	5 K12 HD043376-05	21,197
41395001	CHRC Cell & Molecular Biology	93.865	841742	5 K12 HD043376-02	(6)
41444001	CHRC Scholar Award	93.865	330407	5 K12 HD043376-04	74,839
41415001	Genetic Analyses of Cerebellar Malformation:	93.865	969751	1 K24 HD046712-01A1	109,141
41244002	Intergenerational Tx of Ill Behavior	93.865	717044	2 R01 HD036069-05	18,660
	Subtotal – 93.865 Child Health and Human Development Extramural Research				2,152,967
	Westat:				
41266006	Pediatric HIV Trials Network	N01-DK-8-0001	8530-S006	N01-DK-8-0001	228,606
	Subtotal – N01-DK-8-0001				228,606
	Westat:				
41266006	Pediatric HIV Trials Network	N01-HD33345	7735-S006	N01-HD-3-3345	633,156
	Subtotal – N01-HD33345				633,156
	Stanford University:				
41303005	Pharmacokinetics and Pharmacodynamics of Sodium Nitroprusside	N01-HD-4-3386	18726440-30011-D	N01-HD-4-3386	1,492
	Subtotal – N01-HD-4-3386				1,492
	Washington University of St. Louis:				
41308008	Use of Oral Baclofen for Treatment of Spasticity	N01-HD-6-3421	29684N WU-07-54	HHSN267200603421C	123,703
	Subtotal – N01-HD-6-3421				123,703
	Case Western Reserve University:				
41306003	CoLT – Case Western Reserve University	N01-HD-5-3406	HHSN275200503406C	HHSN275200503406C	213,007
	Subtotal – N01-HD-3406				213,007
	National Institute Deafness and Other Communication Disorders: University of Washington:				
41362004	Hearing Loss and Quality of Life of Children and Youth	93.173	377986	1 R01 DC008144-01A1	32,921
	Subtotal – 93.173 Research Related to Deafness and Communication Disorders				32,921

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	National Institute Dental and Craniofacial Research:				
41405002	Craniofacial and Genetic Variation in 22 q11.2 Deletion Syndrome	93.121	—	5 K23 DE017741-03	\$ 126,573
41445002	Craniofacial Microsomia and Genetic Variation in Hemostasis and Vasculogenesis	93.121	—	1 R01 DE017421-02	64,696
41445001	Craniofacial Microsomia: The Vascular Disruption Hypothesis	93.121	—	5 R03 DE017208-02	71,560
41368001	Neurobehavior Correlates of Craniosyntos	93.121	—	5 R01 DE13813-05	360,125
41354013	Northwest Genome Engineering Consortium Component 1 of 11	93.121	—	8 UL1 DE019582-02	67,989
41473001	Oral Health Behavior and Habits of Young Children with Developmental Delay	93.121	—	1 R21 DE018012-01	116,373
41489001	Viral and Cellular Factors Involved in KSHV Entry in Cells of the Oral Mucosa	93.121	—	7 R01 DE018927-03	222,158
	Boston University:				
41368002	Psychosocial Sequelae of Hemifacial Microsomia	93.121	MC-494950-B-AJ	5 R01 DE011939-10	123,278
	University of California Davis:				
41251007	Nonsyndromic Craniosynostosis: Phenotype/Genotype Study	93.121	SUB0700187	5 R01 DE016886-02	52,586
	University of Iowa:				
41281005	Genetics of Cleft Lip/Palate	93.121	1000544717	2 R01 DE014667-07	19,334
	University of Washington:				
41327001	Project 3: Orthodontics Intervention Under Medicaid	93.121	278237	5 U54 DE014254-06	19,240
	Subtotal – 93.121 Oral Diseases and Disorders Research				1,243,912
	National Institute of Environmental Health Sciences:				
41447002	Child Weight Status and Neighborhood Physical Activity and Nutrition Environment	93.113	—	5 R01 ES014240-05	595,463
	Subtotal – 93.113 Environmental Health				595,463
	National Institute of General Medicine Sciences:				
41354012	Workshop Genome Engineering (Component 9 of 11)	93.310	—	1 RL5 GM084435-02	10,274
	Subtotal – 93.310 Trans-NIH Research Support				10,274
41497002	Anesthetic effects in mitochondrial disease	93.859	—	5 R01 GM075184-03	36,267
41354002	B-Cell Calcium Channel	93.859	—	7 R01 GM64316-5	459,400
41498001	Mitochondrial Effects on Sensitivity to Anesthetics	93.859	—	5 R01 GM058881-11	103,454
41475001	NIH – Experimental Standards and Computational Platform for HTP Proteomics	93.859	—	7 R01 GM076680-03	85,764
41439002	Oxidant Mechanisms in Drug-Induced Hepatic Necrosis	93.859	—	7 R01 GM044263-17	(26,793)
	University of Medical and Dentistry of New Jersey				
41354010	Regulation of Metal Ion Homeostasis by Channel	93.859	P01-4	P01 GM78195-01A1	133,136
	Subtotal – 93.859 Biomedical Research and Research Training				791,228
	National Institute of Mental Health:				
41293004	Behavioral Activation Therapy for Adolescent	93.242	—	5 R34 MH076956-03	196,191
41306002	Early Onset Schizophrenia (TEOSS) Year 5	93.242	—	5 U01 MH061464-05	(10)
41485002	Intermediate Progenitor Cells in Adult Hippocampus	93.242	—	1 R01 MH080766-01A1	48,225
	University of California, San Diego				
41424001	Navajo Youth and the Experience of Psychiatric Treatment	93.242	10254018-003	5 R01 MH071781-02	5,049
	Subtotal – 93.242 Mental Health Research Grants				249,455
	National Institute of Nursing Research				
	University of Washington:				
41404001	Improving CPP Management: Predictive Parameters and Costs	93.361	846066	2 R01 NR004901-01A2	7,177
	Subtotal – 93.361 Nursing Research				7,177
	National Institute on Aging:				
41497001	Interaction of ubiquinone & complex I control longevity	93.866	—	7 R01 AG026073-05	73,171
	Subtotal – 93.866 Aging Research				73,171

SEATTLE CHILDREN'S HOSPITAL

EIN #91-0564748

Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

<u>Award</u>	<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Pass-through grantor's number</u>	<u>Grant number</u>	<u>Federal expenditures</u>
41334009	National Center for Chronic Disease Prevention Health Promotions: SEARCH for Diabetes in Youth 2: Washington Site	93.945	—	5 U01 DP000244-02	\$ 605,068
	Subtotal – 93.945 Assistance Programs for Chronic Disease Prevention and Control				605,068
41341013	PKD2 Expression & Function in Human B Cell Lymphomas	47.079	UKB2-2831-KV-06	INT-9531011	(3,891)
	Subtotal – 47.079 International Science and Engineering				(3,891)
41432004	Boston University: Social and Affective Processes in Autisr	93.242	7786-5	5 U54 MH066398-05	11,930
41357001	University of Washington: Autism Research Center for Excellence	93.242	511270	5 U54 MH066399-05	40,242
	Subtotal – 93.242 Mental Health Research Grants				52,172
41345005	University of North Carolina: Genetic Disorders of Mucociliary Clearance	93.389	5-34160	5 U54 RR019480-03	69,619
41339120	University of Washington: Planning Grant for Institutional Clinical and Translational Science Awar	93.389	508847	1 P20 RR023522-01	14,056
	Subtotal – 93.389 National Center for Research Resources				83,675
41447008	Leland Stanford Junior University: Neighborhood Impact on Physical Activity in Older Adult:	93.837	20916960-29817-D	5 R01 HL077141	8,851
41447007	San Diego State University Research Foundation Ecological Analysis of Activity, Eating & Weight Adolescent	93.837	E00006076	R01 HL083454	17,393
	Subtotal – 93.837 Heart and Vascular Diseases Research				26,244
41269032	University of Washington: Care for Advance CF in the Era of Lung Transplantatior	93.838	379684	7 R01 HL072938-04	6,807
	Subtotal – 93.838 Lung Diseases Research				6,807
41465001	TREAT-JIA	93.846	—	1 R01 AR049762-01A2	(6,416)
	Subtotal – 93.846 Arthritis, Musculoskeletal and Skin Diseases Research				(6,416)
41334011	University of Washington: Quality of Life of Overweight Youth: A Multicultural Vie	93.848	300611	R01 DK071101-01A2	2,320
	Subtotal – 93.848 Digestive Diseases and Nutrition Research				2,320
41383017	Case Western Reserve University: Focal Segmental Trial Data Coordinating Center	93.849	082619320206	5 U01 DK63490-06	20,380
41298003	Columbia University: Cytokines Convert Epithelial Precursors to Nephrons	93.849	5-30625	1 R01 DK058872-05	15,879
41256003	Vanderbilt University Medical: Fibrotic Sequelae of Childhood Renal Disease	93.849	VUMC8991-R	2 P50 DE044757-16	146,571
	Subtotal – 93.849 Kidney Diseases, Urology, and Hematology Research				182,830
41446001	University of Washington: Molecular Basis of Hereditary Neurologic Amyotrophy	93.853	247175	5 R01 NS038181-07	2,255
	Subtotal – 93.853 Extramural Research Programs in the Neurosciences and Neurological Disorders				2,255

SEATTLE CHILDREN'S HOSPITAL

EIN #91-0564748

Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

<u>Award</u>	<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Pass-through grantor's number</u>	<u>Grant number</u>	<u>Federal expenditures</u>
41395012	Fred Hutchinson Cancer Research: Pregnancy, Microchimerism, and Autoimmune Disease	93.855	0000631389	2 R01 AI041721-10A1	\$ 17,781
	Subtotal – 93.855 Allergy, Immunology, and Transplantation Research				17,781
41266010	University of Washington: Core C: Specimen Repository & Virology	93.856	411376	5 P01 AI0575005-05	42,791
41308004	UW Center on Outcomes Research in Rehabilitation	93.856	455510	5 U19 AI031448-17	5,629
	Subtotal – 93.856 Microbiology and Infectious Diseases Research				48,420
41357004	University of Washington: ACE Network Baby Sibs MRI Study	93.865	467019	1 R01 HD055741-01	30,374
41415003	Laboratory of Developmental Biology	93.865	445290	2 R24 HD000836-43	22,353
41244006	Psychosocial Intervention for Children with IBC	93.865	496041	1 R01 HD050345-01A2	11,896
	Subtotal – 93.865 Child Health and Human Development Extramural Research				64,623
41262024	University Of Alabama at Birmingham: Clinical Trials for Antiviral Therapies	N01-AI-30025	N01-AI-30025	N01-AI-30025	5,347
	Subtotal – N01-AI-30025				5,347
41463001	University of Washington: Differences in Morphine Pharmacokinetics between Latino and Non-Latino Caucasian Pediatric Patients	93.333	NCCR CREFF	5 M01 RR00037-47	4,473
	Subtotal – 93.333 Clinical Research				4,473
41447004	United States Department of Agriculture: Emory University: Neighborhood Nutrition and Physical Activity	10.206	5-23590-G1	2007-55215-17924	129,014
	Subtotal – 10.206 Grants for Agricultural Research_Competitive Research Grants				129,014
	Total research and development awards				22,596,455
	Other federal awards:				
50563023	Department of Health: Universal Newborn Hearing 07	93.251	N15267		713
50563023	Universal Newborn Hearing 08	93.251	N16247		68,206
	Subtotal – 93.251 Universal Newborn Hearing Screening				68,919
50518005	CSHCN General Fund Contract	93.994	N14973		352,000
	Subtotal – 93.994 Maternal and Child Health Services Block Grant to the States				352,000
50563025	Department of Social and Health Services: Family Resources Coord – Sno Co.	84.181A	0512-84433		461
	Subtotal – 84.181A Special Education Grants for Infants and Families with Disabilities				461

SEATTLE CHILDREN'S HOSPITAL

EIN #91-0564748

Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

<u>Award</u>	<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Pass-through grantor's number</u>	<u>Grant number</u>	<u>Federal expenditures</u>
50533011	Health Resources and Services Administration: OBCC HRSA Award Year 2	93.110	5 H46 MC04462-03-01		\$ 112,026
	Subtotal – 93.110 Maternal and Child Health Federal Consolidated Programs				112,026
50602003	King County: Healthy Steps – Strong Kids	93.283	D35139D		9,892
50602004	QI – Healthy Steps	93.283	D35139D		10,296
	Subtotal – 93.283 Centers for Disease Control and Prevention_Investigations and Technical Assistance				20,188
50563001	Superintendent of Public Instruction: Early Childhood Instruction 07	84.173	20080205		96,000
	Subtotal – 84.173 Special Education_Preschool Grants				96,000
50563002	Pierce County: Development Disabilities Program	84.181	59164-02		17,380
	Subtotal – 84.181 Special Education Grants for Infants and Families with Disabilities				17,380
50563010	King County: Development Disabilities Program 07	84.181	DD37730D/D37088D		(20,379)
50563010	Development Disabilities Program 08	84.181	DD37730D/D37088D		8,778
	Subtotal – 84.181 Special Education Grants for Infants and Families with Disabilities				(11,601)
	Washington State Department of Health: Genetics	93.994	N16743/N15591		99,123
	BioChem	93.994	N15591		13,500
	Subtotal – 93.994 Maternal and Child Health Services Block Grant to the States				112,623
	Washington State Department of Health: Medical Genetics Via Telemedicine	93.110	N15126		(3,055)
	Subtotal – 93.110 Maternal and Child Health Federal Consolidated Programs				(3,055)
	Seattle King County Department of Public Health: Women infant Care – WIC	10.557	D38012D/D37268D		42,385
	Subtotal – 10.557 Women Infant Care Program				42,385
	Seattle King County Department of Public Health: Maternity Support Services	93.778	D38012D/D37268D		42,384
	Dental anc Access Program	93.778	D37268D		4,998
	Health Care for the Homeless	93.778	D38012D/D37268D		9,984
	Subtotal – 93.778 Medical Assistance Program				57,366
	Total other federal awards				864,692
					\$ 23,461,147

See accompanying notes to schedule of expenditures of federal awards.

SEATTLE CHILDREN'S HOSPITAL

EIN No. 91-0564748

OMB Circular A-133

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Seattle Children's Hospital (the Hospital) for the fiscal year ended September 30, 2008. This schedule has been prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

SEATTLE CHILDREN'S HOSPITAL

EIN No. 91-0564748
OMB Circular A-133

Notes to Schedule of Expenditures of Federal Awards
Year ended September 30, 2008

(2) Subrecipients

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

Program title	Federal CFDA number	Amount provided to subrecipients
HIV Exposure during Chemo	93.865	\$ 14,369
Pediatric HIV Trials Network	93.N01-HD33345	504,811
Prevention of HIV Resist to Nevirap	93.989	52,514
Reservoirs of Drug-Resistant HIV-1	93.855	71,960
Mechanism/predictors of genital rectal HIV shedding during ART with plasma	93.855	76,825
Paternal Exposures and Sporadic Bilateral Retinoblastoma	93.393	933
Health Outcomes for Hodgkin Disease Survivors	93.393	232,300
Childhood Cancer Survivor Study	93.395	8,800
Pediatric Brain Tumor Consortium	93.395	4,076
Childhood Chronic Illness	93.226	95,414
Ketoralac in Surgical Infants: Pharmacok	93.103	23,120
Non-Viral Gene Medicine for Hemophilia	93.839	(5,720)
Modulation of Immune Responses for Hemophilia Following*	93.839	94,734
SEARCH for Diabetes in Youth 2: Washington Site	93.945	71,879
Triostat in Childrn During CPB	93.103	14,737
FcR Mutations in Kawasaki Disease	93.837	77,579
TDN/General Clinical Research Center	93.389	306,778
Early Antipseudomonal Therapy In Cystic Fibrosis	93.838	400,544
Lentiviral Gene Therapy for Wiskott Aldrich Syndrome	93.855	26,173
Genetic Disorders of Mucociliary Clearance	93.389	21,780
Northwest Genome Engineering Consortium Component 1 of 11	93.31	33,385
Neurobehavior Correlates of Craniosyntos	93.121	215,155
Bowel/Bladder Management for Children with Spina Bifida Year 2	417/AUCD RTOI 2005-5/6/-03	5,161
Early Aggressive Therapy in Juvenile Idiopathic Arthritis	93.846	493,918
Exercise & Fitness in Childhood Cancer Survivors	93.395	(49)
HHV-6 and CNS Disease Following Stem Cell Transplant	93.855	105,744
Craniofacial and Genetic Variation in 22q11.2 Deletion Syndrome	93.121	23,353
Cerebral Edema in Pediatric Diabetic Ketoacidosis	93.865	18,045
Intervention for Individuals with Fetal Alcohol Syndrome: Transition Science	93.283	203,879
Parinfluenza Virus Infection in Hematopoietic Cell Transplant Recipients	93.837	11,292

SEATTLE CHILDREN'S HOSPITAL

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Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

<u>Program title</u>	<u>Federal CFDA number</u>	<u>Amount provided to subrecipients</u>
Craniofacial Microsomia and Genetic Variation in Hemostasis and Vasculogenesis	93.121	\$ 14,167
Child Weight Status & Neighborhood Physical Activity & Nutrition Environment	93.115	309,530
Oral Health Behavior and Habits of Young Children with Developmental Dealy	93.121	61,962
Healthy Steps - Strong Kids	93.283	(1,014)
		<u>\$ 3,588,134</u>

SEATTLE CHILDREN'S HOSPITAL

EIN No. 91-0564748

OMB Circular A-133

Schedule of Findings and Questioned Costs

Year ended September 30, 2008

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: **Unqualified**

Internal control over financial reporting:

- Material weakness(es) identified? **No**
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? **None reported**

Noncompliance material to financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? **No**
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? **None reported**

Type of auditors' report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **None**

Identification of major program:

CFDA number	Name of federal program or cluster
RD	Research and Development Cluster

Dollar threshold used to distinguish between type A and type B programs: **\$703,834**

Auditee qualified as low-risk auditee: **Yes**

Section II – Financial Statement Findings

No matters reported.

Section III – Federal Award Findings and Questioned Costs

No matters reported.