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JOSLIN DIABETES CENTER, INC. AND SUBSIDIARIES

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended September 30, 2013

JOSLIN DIABETES CENTER, INC. AND SUBSIDIARIES

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended September 30, 2013

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KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Exhibit I

Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*

The Board of Trustees
Joslin Diabetes Center, Inc. and Subsidiaries:

Report on Compliance for Each Major Federal Program

We have audited Joslin Diabetes Center, Inc. and Subsidiaries' (the Center) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on the Center's major federal program for the year ended September 30, 2013. The Center's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Center's major federal program based on our audit of the types of compliance requirements referred to above. 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 Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of

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findings and questioned costs as item 2013-01. Our major federal program opinion is not modified with respect to this matter.

The Center's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on the Center's major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Center's major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-01, that we consider to be a significant deficiency.

The Center's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of finding and questioned costs the Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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Exhibit I

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

Boston, Massachusetts
March 12, 2014

KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Exhibit II

Independent Auditors' 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
Joslin Diabetes Center, Inc. and Subsidiaries:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable of financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Joslin Diabetes Center, Inc. and Subsidiaries (the Center), which comprise the consolidated balance sheet as of September 30, 2013, and the related consolidated statements of unrestricted revenue, expenses, and other changes in unrestricted net assets, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 20, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's consolidated financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Boston, Massachusetts
December 20, 2013

JOSLIN DIABETES CENTER, INC. AND SUBSIDIARIES

Schedule of Findings and Questioned Costs

Year ended September 30, 2013

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified			
Internal control over financial reporting:				
• Material weakness(es) identified?	______	yes	x	no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	______	yes	x	none reported
Noncompliance material to the financial statements noted?	______	yes	x	no

Federal Awards

Internal control over major programs:				
• Material weakness(es) identified?	______	yes	x	no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	x	yes	______	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?	x	yes	______	no

Identification of Major Programs

Name of federal program or cluster:	Research and Development Cluster			
Dollar threshold used to distinguish between type A and type B programs:	$777,872			
Auditee qualified as low-risk auditee?	x	yes	______	no

JOSLIN DIABETES CENTER, INC. AND SUBSIDIARIES

Schedule of Findings and Questioned Costs

Year ended September 30, 2013

(2) Findings Relating to Financial Statements and Findings Reported in Accordance with Government Auditing Standards

No matters are reported.

(3) Findings and Questioned Costs Relating to Federal Awards

Finding Number:	2013-01
Federal Agency:	U.S. Department of Health and Human Services
Federal Program(s):	Health Care Innovation Awards, CFDA No. 93-610 Heart and Vascular Diseases Research, CFDA No. 93.837 Diabetes, Endocrinology and Metabolic Research, CFDA No. 93-847
Federal Award Year:	October 1, 2012 through September 30, 2013

Criteria:

The Federal Funding Accountability and Transparency Act of 2006 (FFATA) (P.L. 109-282), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (P.L. 110-252), requires full disclosure to the public of Federal spending through a single searchable database that identifies all entities or organizations receiving Federal funds.

Prime grant awardees of Federal grants of $25,000 or more must report associated grant first-tier sub-grants of $25,000 or more.

Sub-award information required for FFATA reporting:

- Name of entity receiving award
- Amount of award (obligated amount)
- Funding agency
- NAICS Code
- Program source
- Award title description of the purpose of the funding action
- Location of the entity (including congressional district)
- Place of performance (including congressional district)
- Unique identifier of the entity and its parent, and
- Total compensation and names of top five executives (prime or sub-awardee)

The above information is required to be reported in FSRS no later than the last day of the month following the month in which the award or modification was signed.

JOSLIN DIABETES CENTER, INC. AND SUBSIDIARIES

Schedule of Findings and Questioned Costs

Year ended September 30, 2013

Condition:

For three of eight subawards subject to FFATA reporting, the Center did not report the required information within the required time period.

Cause:

The Center was not in compliance with FFATA compliance requirements.

Effect:

The Center was not in compliance with FFATA reporting requirements.

Questioned Costs:

None.

Recommendation:

The Center should develop and implement procedures to ensure subawards subject to FFATA reporting requirements are identified in a timely manner and monitored as that required subgrant information can be reported in FSRS in a timely manner.

Auditee Corrective Action Plan:

The Office of Sponsored Research ("OSR") uses an award database to track subcontract information on grants. The database tracks many elements relevant to FFATA reporting and will be further developed to track and report on subcontract information for FFATA reporting. The database will track for each award and subsequently report on the following data elements:

- Institution receiving subcontract
- PI at subcontract institution
- FFATA eligible subcontract
- Amounts awarded to subcontract in each year of award
- Date(s) of subcontract execution and subsequent amendment execution
- FAIN

The award database report will identify subcontracts that are FFATA eligible and eligible for reporting based on execution date and dollar threshold (>$25k).

In addition to the database enhancements, a new email mailbox dedicated to FFATA reporting will be set up. All research administrators will forward fully executed agreements and amendments at time of execution to this mailbox. The contact for FFATA reporting or the contact's designee will periodically review the mailbox and gather together the backup needed for FFATA reporting. The contact will crosscheck the information against the database and against the FFATA Subaward Reporting System worklist.

Management believes that the enhanced database and procedures will ensure the timely filing of all FFATA reports in the future.

Contact Person:

Vice President for Research Administration

Anticipated Completion Date:

March 31, 2014

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Exhibit IV

Independent Auditors' Report on Consolidated Financial Statements and Schedule of Expenditures of Federal Awards

The Board of Trustees
Joslin Diabetes Center, Inc. and Subsidiaries:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Joslin Diabetes Center, Inc. and Subsidiaries (the Center), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of unrestricted revenue, expenses, and other changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Center as of September 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

KPMG LLP

Boston, Massachusetts
December 20, 2013, except for our report on the
Schedule of Federal Awards, for which the date is March 12, 2014

JOSLIN DIABETES CENTER, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2013 and 2012

Assets	**2013**	**2012**
Current assets:		
Cash and cash equivalents	$ 430,337	533,998
Short-term investments	22,968,089	28,566,716
Grants and other accounts receivable	8,469,261	12,213,179
Prepaid expenses and other current assets	3,023,500	1,934,878
Total current assets	34,891,187	43,248,771
Assets whose use is limited or restricted:		
Board-designated assets	936,409	1,146,501
Held for specific purpose and endowment	63,833,682	58,050,468
Pledges receivable – net	3,856,709	6,358,223
Assets held as agent for the Camp	1,877,412	1,939,694
Total assets whose use is limited or restricted	70,504,212	67,494,886
Property and equipment – net	29,289,058	22,857,778
Professional liability reinsurance recoveries	1,898,000	1,906,000
Other assets	1,154,905	610,673
Total	$ 137,737,362	136,118,108
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	$ 1,739,156	1,730,851
Accounts payable and accrued expenses	9,285,732	11,003,311
Deferred revenue and grant awards	7,670,251	6,741,949
Total current liabilities	18,695,139	19,476,111
Long-term debt – net of current portion	3,840,328	5,582,042
Professional liability	1,898,000	1,906,000
Other liabilities	3,376,343	3,947,013
Total liabilities	27,809,810	30,911,166
Net assets:		
Unrestricted	36,979,148	33,543,132
Temporarily restricted	30,332,813	29,347,138
Permanently restricted	42,615,591	42,316,672
Total net assets	109,927,552	105,206,942
Total	$ 137,737,362	136,118,108

See accompanying notes to consolidated financial statements.

JOSLIN DIABETES CENTER, INC. AND SUBSIDIARIES

Consolidated Statements of Unrestricted Revenue, Expenses, and
Other Changes in Unrestricted Net Assets

Years ended September 30, 2013 and 2012

	2013	2012
Unrestricted revenue, gains, and other support:		
Revenue from research grants and contracts	$ 35,079,443	34,241,948
Revenue from educational programs and strategic activities	14,588,948	14,737,530
Clinic net patient service revenue	14,714,486	17,122,765
Net assets released from restrictions – used for other operations	4,317,975	5,127,235
Other operating revenue	7,174,824	4,941,817
Gifts and bequests	6,360,372	6,360,242
Net realized gains on sales of investments	2,711,648	2,014,068
Investment income	343,378	484,420
Total unrestricted revenue, gains, and other support	85,291,074	85,030,025
Expenses:		
Salaries, wages, and employee benefits	51,037,694	49,826,411
Supplies and other expenses	32,515,829	32,305,676
Depreciation and amortization	4,384,171	3,665,608
Interest	163,405	185,709
Total expenses	88,101,099	85,983,404
Deficiency of revenue, gains, and other support over expenses	(2,810,025)	(953,379)
Change in net unrealized gains and losses on investments	521,767	746,425
Net assets released from restrictions – used for purchases of property and equipment	5,724,274	1,950,135
Increase in unrestricted net assets	$ 3,436,016	1,743,181

See accompanying notes to consolidated financial statements.

JOSLIN DIABETES CENTER, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2013 and 2012

	2013	2012
Unrestricted net assets:		
Deficiency of revenue, gains, and other support over expenses	$ (2,810,025)	(953,379)
Net assets released from restrictions – used for purchases of property and equipment	5,724,274	1,950,135
Change in net unrealized gains and losses on investments	521,767	746,425
Increase in unrestricted net assets	3,436,016	1,743,181
Temporarily restricted net assets:		
Contributions	2,816,788	7,319,342
Investment income	693,010	901,800
Net realized gains on investments	6,372,078	1,893,779
Net assets released from restrictions:		
Used for operations	(4,317,975)	(5,127,235)
Used for purchases of property and equipment	(5,724,274)	(1,950,135)
Change in net unrealized gains and losses on investments	1,146,048	6,357,040
Increase in temporarily restricted net assets	985,675	9,394,591
Permanently restricted net assets:		
Contributions	287,225	302,343
Net investment activity	11,694	114
Increase in permanently restricted net assets	298,919	302,457
Increase in net assets	4,720,610	11,440,229
Net assets – beginning of year	105,206,942	93,766,713
Net assets – end of year	$ 109,927,552	105,206,942

See accompanying notes to consolidated financial statements.

JOSLIN DIABETES CENTER, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2013 and 2012

		2013	2012
Operating activities:			
Increase in net assets	$	4,720,610	11,440,229
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		4,384,171	3,665,121
Transfer of assets to amounts held as agent for the Camp		4,251	9,150
Restricted contributions received		(298,919)	(302,458)
Change in charitable remainder trust obligation		(214,339)	131,968
Net realized and unrealized gains and losses on investments		(10,751,541)	(11,011,312)
Increase (decrease) in cash resulting from a change in:			
Accounts receivable		3,743,918	(5,976,412)
Pledges receivable		2,483,079	925,603
Prepaid expense and other current assets		(1,088,622)	(265,236)
Other assets and liabilities		(869,936)	442,849
Accounts payable and accrued expenses		(1,717,579)	2,905,791
Deferred revenue and grant awards		928,302	(2,417,865)
Net cash provided by (used in) operating activities		1,323,395	(452,572)
Investing activities:			
Purchases of investments		(23,059,380)	(24,372,664)
Sales of investments		33,843,839	31,339,114
Additions to property and equipment		(10,783,796)	(6,675,036)
Net cash (used in) provided by investing activities		663	291,414
Financing activities:			
Restricted contributions received		305,690	528,344
Repayment of capital lease obligation		(113,409)	(135,431)
Proceeds from debt issuance		—	7,020,000
Repayment of long-term debt		(1,620,000)	(9,680,937)
Net cash used in financing activities		(1,427,719)	(2,268,024)
Net decrease in cash and cash equivalents		(103,661)	(2,429,182)
Cash and cash equivalents – beginning of year		533,998	2,963,180
Cash and cash equivalents – end of year	$	430,337	533,998

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Joslin Diabetes Center, Inc. (Joslin) is a not-for-profit corporation located in Boston, Massachusetts. Joslin's wholly owned subsidiaries include Joslin Diabetes Clinic, Inc. (the Clinic), and Joslin Technologies, LLC (collectively, the Center). The Center is primarily engaged in diabetes research and education. The Clinic operates a treatment center for diabetes located in Boston, Massachusetts and operates various satellite programs in different locations. Joslin Technologies was formed to pursue commercial opportunities including developments made in research, the Clinic, and strategic activities.

(b) Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Not-for-Profit Entities* and include the accounts of Joslin and its wholly owned subsidiaries. Intercompany transactions and balances are eliminated in consolidation. The assets of any member of the consolidated group may not be available to meet the obligations of other members in the group.

The Center considers events or transactions that occur after the consolidated balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These consolidated financial statements were issued on December 20, 2013, and subsequent events have been evaluated through that date.

(c) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant management estimates include pledges receivable and related allowances, the valuation of certain investments, the determination of other-than-temporary impairment of investments, the determination of impairment of long-lived assets, asset retirement obligations, accruals for malpractice liabilities incurred but not reported, and the estimated net realizable amounts of patient service revenue and related accounts receivable.

(d) Revenue Recognition for Research Grants and Contracts

Revenue related to grants and contracts is recognized as the related costs are incurred. Indirect costs relating to certain government grants and contracts are based on predetermined rates, which are negotiated with the government agencies. Recoveries of indirect costs from government grants and other sources amounted to approximately $10,282,000 and $9,157,000 in 2013 and 2012, respectively. Federally sponsored research grants are accounted for as exchange transactions. Revenue from research grants and contracts in 2013 and 2012 includes approximately $3,070,000 and $3,296,000, respectively, of foundation and other awards released from restriction for those research grants and contracts accounted for as temporarily restricted net assets.

At September 30, 2013 and 2012, the Center had sponsored research funding available of approximately $29,230,000 and $34,069,000, respectively. These amounts represent committed funding for research projects scheduled to occur after the end of the Center's fiscal year. As the related costs have not been incurred at the end of the quarter, and in accordance with the Center's revenue recognition policies for grants and contracts, only those revenues supporting expenditures made are reflected in the accompanying consolidated statements of unrestricted revenue, expenses, and other changes in unrestricted net assets.

(e) Revenue Recognition for Educational Programs and Strategic Activities

Revenue related to the Center's strategic programming includes income earned from the provision of accredited continuing medical education services, revenue earned under certain research and development and collaborative contracts, and revenue from affiliated center activities. Revenue from these programs is recognized as the services are provided.

(f) Clinic Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Payments to the Clinic for services provided under third-party payment arrangements are generally determined on a fee-for-service basis. There is a possibility that recorded estimates will change by a material amount in the near term. Under the terms of various agreements, regulations, and statutes, certain elements of third-party reimbursement are subject to negotiation, audit, and/or final determination by the third-party payors. As a result, there is at least a reasonable possibility that the recorded estimates will change by a material amount in the near term.

(g) Other Operating Revenue

Other operating revenue reflects the revenue generated from rental income from property owned by the Center and miscellaneous other income.

(h) Charity Care and Provision for Bad Debts

The Clinic provides care to patients who meet certain criteria under its charity care policy. These patients may receive full assistance or may be subject to partial liability based on income and family size. Because the Clinic does not expect payment or pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. During the years ended September 30, 2013 and 2012, the Clinic provided approximately $121,000 and $141,000, respectively, in charity care.

The Clinic grants credit without collateral to patients, most of whom are local residents and are insured under third party arrangements. Additions to the allowance for doubtful accounts are made by means of a provision for bad debts. Accounts written off as uncollectible are deducted from the allowance and subsequent recoveries are added. The amount of the provision for bad debts is based upon management's assessment of historical and expected net collections business and economic conditions, trends in federal and state governmental healthcare coverage and other collection indicators.

(Continued)

(i) Cash and Cash Equivalents

Cash and cash equivalents include interest-bearing cash, certificates of deposit, and other highly liquid investments with a remaining maturity of three months or less when purchased, excluding assets whose use is limited or restricted.

Cash restricted for government programs amounted to $772,855 and $243,754 as of September 31, 2013 and 2012, respectively.

(j) Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include assets set aside by Joslin's Board of Trustees (the Board), pledges receivable, assets subject to temporary and permanent donor restrictions and assets held as an agent for the Camp. Board-designated assets may, at the Board's discretion, be used for other purposes.

(k) Investments and Investment Income

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See note 3 for a discussion of fair value measurements.

Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in unrestricted revenue, gains, and other support, unless the income or loss is restricted by donor or law. Realized gains or losses on the sale of investments are determined by use of average cost. Unrealized gains and losses on investments, other than alternative investments, are excluded from the deficiency of revenue, gains, and other support over expenses, and reported as an increase or decrease in net assets, except that declines in fair value that are judged to be other-than-temporary are reported as realized losses.

The Center periodically reviews its investments to identify those individual investments for which fair value is below cost. The Center then makes a determination as to whether the investment should be considered other-than-temporarily impaired. During the years ended September 30, 2013 and September 30, 2012, the Center recognized no losses related to declines in value that were other-than-temporary in nature.

(l) Property and Equipment

Property and equipment is stated at cost or, if received by gift or donation, at fair value when received. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets ranging from three to thirty years. Equipment purchased with research funds is expensed directly to the research grant. Expenditures for maintenance and repairs are charged to operations as incurred.

Gifts of long-lived assets, such as land, buildings, or equipment are reported as unrestricted support and excluded from the deficiency of revenue, gains and other support over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(m) Impairment of Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. During 2013 and 2012, the Center did not record any impairment of long-lived assets.

(n) Asset Retirement Obligations

The fair value of a liability for legal obligations associated with asset retirements is recognized in the period in which it is incurred if a reasonable estimate of the fair value of the obligation can be made. When a liability is initially recorded, the cost of the asset retirement obligation is capitalized by incurring the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost associated with the retirement is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the actual cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of unrestricted revenue, expenses and other changes in unrestricted net assets.

(o) Costs of Borrowing

Interest cost incurred on borrowed funds, net of interest income earned on such funds during the period of construction of capital assets, is capitalized as a component of the cost of acquiring those assets. No interest costs were capitalized in 2013 or 2012. Deferred financing costs are included in other assets and are amortized over the period the related obligation is outstanding using the effective interest method.

(p) Development Office Expenses

The costs of the Center's development office, approximately $3,331,000 and $3,317,000 for the years ended September 30, 2013 and 2012, respectively, are included in expenses in the consolidated statements of unrestricted revenue, expenses, and other changes in unrestricted net assets.

(q) Tax Status

Joslin, the Clinic, and Joslin Technologies have been recognized by the Internal Revenue Service (IRS) as organizations described in Internal Revenue Code (the Code) Section 501(c)(3) and, therefore, are exempt from taxation on related income under Section 501(a) of the Code. The IRS has also previously determined that these entities are not private foundations pursuant to Section 509(a) of the Code. Accordingly, no provision for income taxes has been recorded in the accompanying consolidated financial statements.

The Center recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition in measurement are reflected in the

(Continued)

period in which the change in judgment occurs. The Center did not recognize the effect of any income tax portion in either 2013 or 2012.

(r) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Center has been limited by donors to a specific time period or purpose and accumulated realized and unrealized gains on permanently restricted funds. Permanently restricted net assets have been restricted by donors to be maintained by the Center in perpetuity.

The Center has interpreted state law as requiring realized and unrealized gains of permanently restricted net assets to be retained in a temporarily restricted net asset classification until appropriated by the board and expended. State law allows the board to appropriate so much of the net appreciation of permanently restricted net assets as is prudent considering the Center’s long and short term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Annually, the board appropriates an amount based upon a 4% spending policy.

(s) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Center are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Unconditional pledges and gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of unrestricted revenue, expenses, and other changes in unrestricted net assets and changes in net assets as net assets released from restrictions.

(t) Fair Value Measurements

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- The carrying amount of cash and cash equivalents, restricted cash, patient accounts receivable, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments.
- The estimated fair values of the Center’s long-term debt is based on current traded values or a discounted cash flows analysis based on the Center’s current incremental borrowing rates for similar types of arrangements. The estimated fair value of long-term debt approximates the carrying amounts.

See note 3 for a discussion of fair value measurements related to investments.

(u) Reclassifications

Certain 2012 dollar amounts have been reclassified to conform with current year presentation.

(2) Revenue from Service and Space Lease Agreements

Under the terms of the original services agreement and a lease agreement, the Center supervises, directs, and controls the day-to-day business activities, management, administration, and operation of the Clinic's business and assets and provides facilities. As compensation for these services, the Clinic has agreed to pay the Center for the allocated costs of services provided. These allocations include budgeted amounts for facilities, marketing and planning, general administration, accounting, legal, human resources, communication, information management, depreciation and interest, utilities, engineering and maintenance, and other miscellaneous services. The costs and related revenue and have been eliminated in the accompanying consolidated financial statements.

(3) Investments and Assets Whose Use is Limited or Restricted

Investments and assets, whose use is limited or restricted as of September 30, 2013 and 2012, consisted of the following:

	2013	2012
Short-term investments	$ 22,968,089	28,566,716
Life income funds, included in other assets	419,274	409,410
Private letter ruling refund, included in other assets	525,533	—
Assets held as an agent for the Camp	1,877,412	1,939,694
Board-designated assets – pooled investments	936,409	1,146,501
Temporarily restricted assets – donor restricted:		
Pooled investments	21,798,323	15,877,294
Life income funds	1,542,763	2,055,251
Regulatory compliance escrow	226,727	226,704
Total temporarily restricted assets – donor restricted	23,567,813	18,159,249
Permanently restricted assets:		
Pooled investments	40,100,895	39,737,174
Life income funds	19,172	20,460
Other investments	145,802	133,585
Total permanently restricted assets	40,265,869	39,891,219
Pledges receivable – net:		
Temporarily restricted	1,499,201	3,982,280
Permanently restricted	2,357,508	2,375,943
Total pledges receivable – net	3,856,709	6,358,223
Total	$ 94,417,108	96,471,012

(Continued)

(a) Regulatory Compliance Escrow

The regulatory compliance escrow consists of short-term investments held in escrow in temporarily restricted net assets and is invested primarily in U.S. government securities. Such investments are externally restricted and stated at fair value.

(b) Life Income Funds

Life income funds stated at fair value are invested primarily in fixed-income mutual funds and equity mutual funds. Such amounts relate to funds received by the Center subject to trust agreements reserving life income to one or more beneficiaries, with the related present value of such obligations recorded as a other long-term liability. Unrestricted life income funds are included in other assets in the accompanying consolidated balance sheets at September 30, 2013 and 2012.

(c) Pledges Receivable

Pledges receivable are reported at their present value – net of allowance for uncollectible amounts. Pledges receivable as of September 30, 2013 and 2012, were as follows:

	2013	2012
Due in less than one year	$ 1,724,581	1,413,289
Due in one to five years	1,236,418	3,671,223
Due in more than five years	4,010,000	4,020,000
	6,970,999	9,104,512
Less present value discount (5% - 6%)	(1,771,063)	(1,821,157)
Less allowance for uncollectible amounts	(26,478)	(126,314)
Total	$ 5,173,458	7,157,041

Pledges receivable as of September 30, 2013 and 2012, are reported in the consolidated balance sheets as follows:

	2013	2012
Pledges receivable – net	$ 3,856,709	6,358,223
Grants and other accounts receivable	1,316,749	798,818
Total	$ 5,173,458	7,157,041

(d) Elliott P. Joslin Summer Camp (the Camp)

In August 2010, the Center completed the sale of the equipment and real property of the Camp to a third party. Concurrently, the Center's endowment included certain permanently restricted gifts to support camperships and the operation of the Camp and temporarily restricted funds that represented the accumulated realized and unrealized gains on the permanently restricted endowment gifts for the benefit of the Camp. All investment income and realized gains are distributed to the Camp on a quarterly basis. Included in amounts held as agent for the Camp in the accompanying consolidated balance sheets at September 30, 2013 and 2012, is approximately $1,877,000 and $1,940,000, which represents the endowments maintained by Joslin on behalf of the Camp. The Center's temporarily restricted and permanently restricted net assets have been reduced to properly reflect those net assets held on behalf of the Camp.

(e) Fair Value

The Center invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. Financial instruments that are measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. Level 1 includes debt and equity securities that trade in an active exchange market, as well as U.S. Treasury securities;
- Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data. This category generally includes certain U.S. governmental and agency mortgage-backed debt securities, corporate debt securities, and some alternative investments; and
- Level 3 – unobservable inputs are used when little or no market data is available. This category includes financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Investments that are included in this category generally include limited partnerships, private equity, real estate funds, and funds of hedge funds.

Following is a description of the valuation methodologies used for assets at fair value:

Cash and money market funds: Money market funds are valued at the net asset value (NAV) reported by the financial institution.

Mutual funds: Valued at the quoted market prices.

Limited partnerships: The estimation of fair value of investments in investment companies for which the investment does not have a readily determinable value is made using the NAV per share or its equivalent as a practical expedient.

The Center owns interests in alternative investment funds rather than in the securities underlying each fund and, therefore, it is generally required to consider such investments as Level 2 or 3 for purposes of applying ASC 820-10, even though the underlying securities may not be difficult to value or may be readily marketable. The Center has applied the accounting provisions of Accounting Standards Update 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*, for its alternative investments. This standard allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable value using NAV per share or its equivalent as a practical expedient. The Center has utilized the NAV reported by each of the underlying funds as a practical expedient to estimate the value of the investment. Also, because the Center uses NAV as a practical expedient to estimate fair value, the level in the fair value hierarchy in which each fund's fair value measurement is classified is based primarily on the Center's ability to redeem its interest in the fund at or near the date of the consolidated balance sheet. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risk associated with investing in those investments or a reflection on the liquidity of each fund's underlying assets and liabilities.

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

The following table sets forth the Center's consolidated financial assets that were accounted for at fair value on a recurring basis as of September 30, 2013. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement and include related strategy, liquidity, and funding commitments:

	September 30, 2013					
	Quoted price in active markets for identical instruments (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Total	Redemption period frequency	Days' notice
Investments:						
Cash and money market funds	$ 7,391,584	—	—	7,391,584	Daily	1
Mutual funds:						
Fixed income	17,319,683	—	—	17,319,683	Daily - Quarterly	1 – 90
Equity mutual funds:						
Large cap	9,467,036	—	—	9,467,036	Daily	1
Mid cap	3,376,095	—	—	3,376,095	Daily	1
Small cap	2,205,136	—	—	2,205,136	Daily	1
Non-U.S.	11,000,230	—	—	11,000,230	Daily	1
Emerging markets	6,490,170	—	—	6,490,170	Daily	1
Real estate	20,067	—	—	20,067	Daily	1
Other	—	—	144,489	144,489	Illiquid	N/A
Absolute return and hedged equity	—	32,120,528	1,025,381	33,145,909	Monthly – Locked Up	30 – N/A
Total	$ 57,270,001	32,120,528	1,169,870	90,560,399		

The following table presents additional information about the changes in Level 3 assets measured at fair value for the year ended September 30, 2013:

	Fair value measurements using significant unobservable inputs				
	Beginning balance	Transfer to Level 2	Purchases	Net realized and unrealized gains	Ending balance
Absolute return and hedged equity	$ 2,111,856	(4,101,523)	2,500,000	515,048	1,025,381
Other	133,585	—	—	10,904	144,489
	$ 2,245,441	(4,101,523)	2,500,000	525,952	1,169,870

The transfer to Level 2 was the result of an expiration of a lock-up provision.

The following table sets forth the Center's consolidated financial assets that were accounted for at fair value on a recurring basis as of September 30, 2012. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement and include related strategy, liquidity, and funding commitments:

	September 30, 2012					
	Quoted price in active markets for identical instruments (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Total	Redemption period frequency	Days' notice
Investments:						
Cash and money market funds	$ 3,983,985	—	—	3,983,985	Daily	1
Mutual funds:						
Fixed income	25,225,624	—	—	25,225,624	Daily	1
Equity mutual funds:						
Large cap	24,728,892	—	—	24,728,892	Daily	1
Mid cap	2,676,080	—	—	2,676,080	Daily	1
Small cap	1,710,564	—	—	1,710,564	Daily	1
Non-U.S.	6,183,159	—	—	6,183,159	Daily	1
Emerging markets	1,897,160	—	—	1,897,160	Daily	1
Real estate	67,964	—	—	67,964	Daily	1
Other	—	—	133,585	133,585	Illiquid	N/A
Absolute return and hedged equity	—	21,393,920	2,111,856	23,505,776	Monthly – Locked Up	6 – N/A
Total	$ 66,473,428	21,393,920	2,245,441	90,112,789		

The following table presents additional information about the changes in Level 3 assets measured at fair value for the year ended September 30, 2012:

	Fair value measurements using significant unobservable inputs				
	Beginning balance	Transfer to Level 2	Purchases	Net realized and unrealized gains	Ending balance
Absolute return and hedged equity	$ 2,908,491	(2,908,491)	2,000,000	111,856	2,111,856
Other	133,504	—	—	81	133,585
	$ 3,041,995	(2,908,491)	2,000,000	111,937	2,245,441

(f) Liquidity

Investment liquidity as of September 30, 2013 is aggregated below based on redemption or sale period:

	Investment fair values
Investment redemption or sale period:	
Daily	$ 56,270,001
Monthly	8,577,357
Quarterly	24,543,171
Subject to lock-up	1,025,381
Illiquid	144,489
Total	$ 90,560,399

(4) Property and Equipment

Property and equipment consisted of the following as of September 30, 2013 and 2012:

	2013	2012
Land	$ 1,072,684	1,072,684
Buildings and equipment	95,251,553	84,471,089
Total	96,324,237	85,543,773
Less accumulated depreciation and amortization	(67,035,179)	(62,685,995)
Total	$ 29,289,058	22,857,778

(5) Long-Term Debt

Long-term debt consists of the following at September 30, 2013 and 2012:

		2013	2012
Bank of America loan, interest rate at 2.37%, payable monthly for 5 years ending in January 2017	$	5,400,000	7,020,000
Capital lease, 7.29% interest rate		179,484	292,893
Total		5,579,484	7,312,893
Less current portion		1,739,156	1,730,851
Total	$	3,840,328	5,582,042

(a) *Series A Bonds*

In January 1992, the Center entered into an agreement with the Massachusetts Development Finance Agency (formerly the Massachusetts Health and Educational Facilities Authority (MHEFA)) to issue tax-exempt MHEFA Revenue Bonds, Joslin Diabetes Center Issue, Series A (the Series A Bonds) in an aggregate amount of $25 million. The proceeds from the issuance were used to prepay debt and to finance additions to property and equipment. In January 2012, the Center paid off the MHEFA Revenue Bonds.

In January 2012, the Center entered into a credit agreement with the Bank of America. The Center borrowed $8,100,000, to be repaid in monthly installments of $135,000 through January 2017 plus interest of 2.37%.

Scheduled principal payments on the Bank of America loan as of September 30, 2013, are as follows:

Years ending September 30:		
2014	$	1,620,000
2015		1,620,000
2016		1,620,000
2017		540,000
Total	$	5,400,000

Interest paid approximated interest expense in 2013 and 2012.

(b) Capital Lease

In 2011, the Center entered into a capital lease to finance the acquisition of certain equipment. The Center's future obligations under the capital lease, which is collateralized by the related equipment at September 30, 2013, is as follows:

Years ending September 30:		
2014	$	129,220
2015		64,610
Total minimum lease payments		193,830
Less amounts representing interest		(14,346)
Present value of minimum lease payments	$	179,484

(6) Operating Leases

(a) Lessor

The Center leases space to retail stores and health care facilities under noncancelable operating leases, many of which contain renewal options. Total rental income under such leases approximated $1,389,000 and $1,524,000 in 2013 and 2012, respectively.

Future lease revenue under such noncancelable operating leases as of September 30, 2013, is as follows:

Years ending September 30:		
2014	$	978,583
2015		644,557
2016		525,712
2017		28,617
Total	$	2,177,469

(b) Lessee

The Center leases certain equipment and facilities under noncancelable operating leases. The Center's obligations under such noncancelable operating leases as of September 30, 2013, expiring in 2014 approximately $48,000.

Lease expenses totaled approximately $354,000 and $346,000 in 2013 and 2012, respectively.

(7) Employee Benefit Plan

The Center has a qualified defined contribution plan under Section 403(b) of the Code covering substantially all employees. Total pension expense under this plan was approximately $1,812,000 and

$1,621,000 in 2013 and 2012, respectively. The annual contribution is determined by applying the specified plan rates to the employees' gross salaries.

(8) Professional and Comprehensive Liability Insurance and Contingencies

(a) Professional Liability

The Center has secured medical malpractice and comprehensive liability coverage from Controlled Risk Insurance Company, Ltd. (CRICO). CRICO is a captive insurance company owned jointly by the Center and several other Boston-area health care institutions. The Center accounts for its 10% investment in CRICO at cost. CRICO provides malpractice and comprehensive liability insurance coverage on a claims-made basis. The CRICO premium is prospectively assessed, but subject to retrospective adjustment. The policy covers claims made during the term of the policy, but not those occurrences for which claims may be made after expiration of the policy. The Center intends to renew its coverage on a claims-made basis and has no reason to believe that it will be prevented from renewing such coverage. Included in other long-term liabilities are approximately $520,000 and $552,000 for September 30, 2013 and 2012, respectively, to cover professional liability claims incurred but not reported to CRICO at year-end. Also, due to the implementation of ASU 2010-24, which eliminates the practice of netting claim liabilities with expected related insurance recoveries, there is an increase in long-term assets and long-term liabilities on the face of the balance sheet of $1,898,000 and $1,906,000 for September 30, 2013 and 2012, respectively. The estimated amount of accrued unasserted claims has been determined by third party actuaries on an undiscounted basis.

(b) Other Contingencies

The Center is a party in various legal proceedings and potential claims arising in the ordinary course of its business. In addition, the health care industry as a whole is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, particularly those related to the Medicare and Medicaid programs, can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Such compliance in the health care industry has come under increased government scrutiny. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Management does not believe that these matters will have a material adverse effect on the Center's consolidated financial statements.

(9) Concentrations of Credit Risk

The Clinic grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of September 30, 2013 and 2012 is as follows:

	2013	2012
Medicare	22%	19%
Medicaid	12	14
Commercial insurance and health maintenance organizations	51	53
Patients	15	14
Total	100%	100%

A significant portion of the accounts receivable from commercial insurance and health maintenance organizations is derived from BlueCross and BlueShield of Massachusetts and two other Massachusetts managed care companies. Although management expects the amounts recorded as net accounts receivable at September 30, 2013 to be collectible, this concentration of credit risk is expected to continue in the near term.

(10) Assets Held in Trust

Mary K. Iacocca Chair

The Iacocca Foundation has established a trust in the field of diabetes and metabolism at Harvard Medical School. The income from this trust is designated to fund the expenses of the Director of Research at Joslin Diabetes Center, Inc. Distributions from the fund aggregated approximately $275,000 and $320,000 in 2013 and 2012, respectively, and are recorded as additions to temporarily restricted net assets when received. The fair value of this fund at September 30, 2013 and 2012, was approximately $8,008,000 and $7,758,000, respectively.

The assets of the Iacocca Chair have not been included in the Center’s consolidated financial statements because, under certain circumstances, the income from the funds could be made available to other organizations.

(11) Temporarily and Permanently Restricted Net Assets

(a) Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2013 and 2012 consist of accumulated net gains on permanently restricted net assets, which are available for Board appropriation and donor-restricted gifts as follows:

		2013	2012
Available for research and other operations	$	11,110,237	15,886,797
Accumulated gains available for Board appropriation		19,222,576	13,460,341
Total	$	30,332,813	29,347,138

(b) Permanently Restricted Net Assets

Permanently restricted net assets at September 30, 2013 and 2012 consisted generally of investments to be held in perpetuity, the income from which is expendable for the purposes designated by the donor.

(c) Endowment Funds

The Center has adopted the provisions of ASC 958-204, which provides guidance on required disclosures about endowment funds. The Center's endowment consists of 107 funds established for a variety of purposes. For the purposes of this disclosure, endowment funds consist of donor-restricted endowment funds.

Relevant Law – The Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) permits the governing board to exercise its discretion in determining the appropriate level of expenditures from a donor-restricted endowment fund in accordance with a set of guidelines about what constitutes prudent spending. UPMIFA permits the Center to appropriate for expenditure or accumulate so much of an endowment fund as the Center determines to be prudent for the uses, benefits, purposes and duration for which the endowment fund is established. Seven criteria are to be used to guide the Center in its yearly expenditure decisions: 1) duration and preservation of the endowment fund; 2) the purposes of the Center and the endowment fund; 3) general economic conditions; 4) effect of inflation or deflation; 5) the expected total return from income and the depreciation of investments; 6) other resources of the Center and 7) the investment policy of the Center.

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Although UPMIFA offers short-term spending flexibility, the explicit consideration of the preservation of funds among factors for prudent spending suggests that a donor-restricted endowment fund is still perpetual in nature. Under UPMIFA, the Board is permitted to determine and continue a prudent payout amount, even if the market value of the fund is below historic dollar value. There is an expectation that, over time, the permanently restricted amount will remain intact. This perspective is aligned with the accounting standards definition that permanently restricted funds are those that must be held in perpetuity even though the historic-dollar-value may be dipped on a temporary basis.

In accordance with appropriate accounting standards, the Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until appropriated for spending by the Board of Directors.

Endowment Net Asset Composition and Changes in Endowment Net Assets – The following is a summary of the endowment net asset composition by type of fund as of September 30, 2013 and 2012, and the changes therein for the years then ended:

	Temporarily restricted	Permanently restricted	Total
Endowment net assets – September 30, 2011	$ 6,981,219	42,014,215	48,995,434
Investment return:			
Investment income	736,434	114	736,548
Net realized and unrealized appreciation	7,398,724	—	7,398,724
Total investment return	8,135,158	114	8,135,272
Contributions	—	302,343	302,343
Appropriation of endowment assets for expenditure	(1,656,036)	—	(1,656,036)
	(1,656,036)	302,343	(1,353,693)
Endowment net assets – September 30, 2012	13,460,341	42,316,672	55,777,013
Investment return:			
Investment income	754,634	11,694	766,328
Net realized and unrealized appreciation	6,963,735	—	6,963,735
Total investment return	7,718,369	11,694	7,730,063
Contributions	—	287,225	287,225
Appropriation of endowment assets for expenditure	(1,956,134)	—	(1,956,134)
	(1,956,134)	287,225	(1,668,909)
Endowment net assets – September 30, 2013	$ 19,222,576	42,615,591	61,838,167

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Funds With Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Center to retain as a fund of perpetual duration. At September 30, 2013 and 2012, there were no restricted endowment funds that were below the level that the donor requires the Center to retain as a fund of perpetual duration.

Investment Return Objectives and Spending Policy – The Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of an index representing broad benchmark returns with actual manager weights, while assuming a moderate level of investment risk. The Center expects its endowment funds, over time, to provide an average rate of return of approximately 5%-7% annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Center targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints.

Under the Center's current long-term investment spending policy, which is within the guidelines specified under state law, 4% of the average of the fair value of qualifying long-term investments applied to a three-year month average with a one year lag is appropriated. This amounted to $2,197,469 and $2,076,125 for the years ended September 30, 2013 and 2012, respectively.

(12) Functional Expenses

The Center is dedicated to preeminence in the study of diabetes and the care of those with diabetes. Expenses related to providing these services for the years ended September 30, 2013 and 2012, were as follows:

		2013	2012
Research programs	$	32,759,447	31,860,306
Clinical services		19,987,810	20,261,448
Other mission related		12,984,837	11,675,362
Fundraising programs		3,331,317	3,317,363
General and administrative		19,037,688	18,868,925
Total	$	88,101,099	85,983,404

JOSLIN DIABETES CENTER, INC. AND SUBSIDIARIES

Schedule of Expenditures of Federal Awards

Year ended September 30, 2013

Federal grantor/Pass-through grantor/Program title	Federal CFDA number	Agency or pass-through grantor's number	Federal expenditures
Research and Development:			
Direct – U.S. Department of Health and Human Services:		*	
National Institutes of Health (NIH):			
Office of Director – NIH	93.310		$ 797,154
ARRA	93.701		14,639
Heart and Vascular Disease Research	93.837		1,980,101
Heart, Lung and Blood Institute	93.839		348,163
Arthritis, Musculoskeletal and Skin Diseases	93.846		511,464
Diabetes, Endocrinology and Research Metabolism	93.847		12,536,698
Kidney Diseases, Urology and Hematology Research	93.849		122,508
Vision Research	93.867		204,296
Neurological Disorders and Stroke	93.853		546,599
Eunice Kennedy Shriver National Institute of Child Health and Human Development	93.865		192,675
NICHD Study – Enhancing Carbohydrate Quality in Type I Diabetes	93.000		1,169,588
National Institutes of General Medicine:			
Multiple Mechanisms of SKN-1 Function in Vivo	93.859		577,854
National Institute on Aging:			
Clinical Investigator Award and Fellowship	93.866		611,186
An Intervention Study of Diabetes Management – DOD	12.420		394
Center for Medicare & Medicaid Services	93.610		1,697,858
Pass-Through:			
Harvard Medical School – Clinical and Translational Science Center	93.389	N/A	(620)
Harvard Medical School – Clinical and Translational Science Center	93.389	N/A	61
Harvard Medical School – Clinical and Translational Science Center	93.389	N/A	14,300
			13,741
Battelle Memorial Institute – Department of Energy	93.701	N/A	2,178
Brigham & Woman's Hospital	93.701	N/A	(2,999)
Harvard Medical School	93.701	N/A	463
			(358)
Beth Israel Deaconess Medical Center – Heart and Vascular Disease Research	93.837	N/A	29,853
Harvard School of Public Health	93.837	N/A	92,647
Beth Israel Deaconess Medical Center – Heart and Vascular Disease Research	93.837	N/A	458,663
Beth Israel Deaconess Medical Center – Heart and Vascular Disease Research	93.837	N/A	(52)
Mass. General Hospital -Center for Human Genetic Research	93.837	N/A	243,560
Brigham & Woman's Hospital	93.837	N/A	82
President and Fellows of Harvard College – School of Engineering & Applied Sciences	93.837	N/A	95,827
			920,580
The John Hopkins University – Department of Molecular Biology and Genetics	93.846	N/A	9,577
Boston Medical Center – Boston Obesity Nutrition Research Center	93.847	N/A	73
Beth Israel Deaconess Medical Center – Division of Nuclear Medicine	93.847	N/A	75,812
Beth Israel Deaconess Medical Center – Behavioural Health	93.847	N/A	32,731
J. David Gladstone Institutes	93.847	N/A	108,840
Mass. General Hospital – Diabetes, Endocrinology and Metabolism Research	93.847	N/A	411,073
University of Southern Florida – Digestive and Kidney Disease	93.847	N/A	(1,042)
University of Pittsburg – Department of Epidemiology	93.847	N/A	(5,366)
The Rector and Visitors of the University of Virginia	93.847	N/A	65,875
BodiMojo Inc	93.847	N/A	(73)
Rensselaer Polytechnic Institute – Integrative Physiology and Metabolism	93.847	N/A	1,875
Children's Hospital, Boston – Diabetes, Endocrinology and Metabolism Research	93.847	N/A	45,584
Children's Hospital, Boston – Diabetes, Endocrinology and Metabolism Research	93.847	N/A	195,801
New England Research Institutes, Inc.	93.847	N/A	36,611
Georgia Health Sciences University	93.847	N/A	40,358
Vanderbilt University & Medical center – School of Nursing	93.847	N/A	18,489
Case Western Reserve University	93.847	N/A	194,842
			1,221,483
Mass. General Hospital – Digestive Disease and Nutrition Research	93.848	N/A	494,502
President and Fellows of Harvard College – Development Biology	93.848	N/A	3,236
			497,738
Harvard School of Public Health	93.853	N/A	11

Exhibit IV

JOSLIN DIABETES CENTER, INC. AND SUBSIDIARIES

Schedule of Expenditures of Federal Awards

Year ended September 30, 2013

Federal grantor/Pass-through grantor/Program title	Federal CFDA number	Agency or pass-through grantor's number	Federal expenditures
Harvard Medical School – Allergy, Immunology and Transplantation Research	93.855	N/A	$ 101,258
Harvard Medical School – Allergy, Immunology and Transplantation Research	93.855	N/A	17,645
Harvard Medical School – Allergy, Immunology and Transplantation Research	93.855	N/A	15,990
Brigham & Woman's Hospital	93.855	N/A	8,418
Harvard University – Center for Aids Research	93.855	N/A	1,045
			144,356
Boston Medical Center – Institute on Aging	93.866	N/A	207
Georgia Institute of Technology – Department of Biomedical Engineering	93.867	N/A	347,737
Boston Micro Machines Corporation	93.867	N/A	45,861
JAEB Center for Health Research Institute – Vision Research	93.867	N/A	83,253
JAEB Center for Health Research Institute – Vision Research	93.867	N/A	76,728
			553,579
Harvard Medical School – Department of Stem Cell and Regenerative Biology	93.859	N/A	76,391
Engineering Systems Consultants – DOD Subcontract	93.000	N/A	54,528
Battelle Memorial Institute – Department of Energy	93.000	N/A	84,897
Phoenix Area Indian Health Service – Division of Acquisition Management	93.000	N/A	964,898
University of California San Francisco – Immune Tolerance Network Grant	93.000	N/A	50,279
DOD – Energesis Pharmaceuticals	93.000	N/A	25,983
			1,180,585
Total Research and Development			$ 25,929,067

* Represents over 56 different grants provided by the U.S. Department of Health and Human Services to Joslin Diabetes.

See accompanying notes to schedule of federal awards.

Exhibit IV

JOSLIN DIABETES CENTER, INC. AND SUBSIDIARIES

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2013

(1) Basis of Presentation

Transactions related to the Joslin Diabetes Center, Inc. and subsidiaries (the Center) and federal grant programs within the scope of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented in the accompanying schedule of expenditures of federal awards (the Schedule). Certain programs receive funds from both federal and state agencies.

(2) Basis of Accounting

Accounting policies of the Center conform with accounting principles generally accepted in the United States of America. The Schedule is prepared on the accrual basis of accounting.

(3) Program Cluster

The research and development programs are treated as a clustered program for audit purposes.

(4) Indirect Costs

Indirect costs are charged to federal grants and contracts at a federally approved predetermined rate. The predetermined rate for the year ended September 30, 2013 was 65%. Indirect costs are included in the reported federal expenditures.