Boston Medical Center
(Parent company only)
Financial Statements
September 30, 2008 and 2007
Report of Independent Auditors

To the Board of Trustees
of Boston Medical Center

We have audited the accompanying balance sheets of Boston Medical Center (parent company only) (the "Medical Center") as of September 30, 2008 and 2007, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

The Medical Center publishes consolidated financial statements, which are its primary financial statements. Faculty Practice Foundation, Inc. and Affiliates (the "Foundation") and Boston Medical Center HealthNet Plan, Inc. ("BMCHP") are affiliates of the Medical Center. As described in Note 14, due to the significance of the transactions between the Medical Center, Foundation, and BMCHP, the results of operations for the Medical Center may not be indicative of the results which would have been attained if the Foundation and BMCHP were not affiliates of the Medical Center.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center at September 30, 2008 and 2007, and the results of its operations, its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Notes 2 and 11, in 2007, the Medical Center adopted Statement of Financial Accounting Standard No. 158, Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, and Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements.

February 27, 2009
Boston Medical Center  
(Parent company only)  
Balance Sheets  
September 30, 2008 and 2007  

(in thousands)  

<table>
<thead>
<tr>
<th>Assets</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$7,314</td>
<td>$20,844</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>1,602</td>
<td>86,462</td>
</tr>
<tr>
<td>Patient accounts receivable, less allowance of $38,138 and $30,404 in 2008 and 2007</td>
<td>99,142</td>
<td>83,146</td>
</tr>
<tr>
<td>Other accounts receivable, less allowance of $18,738 and $18,843 in 2008 and 2007</td>
<td>245,487</td>
<td>101,648</td>
</tr>
<tr>
<td>Current portion of grants receivable, less allowance of $4,991 and $4,953 in 2008 and 2007</td>
<td>17,307</td>
<td>13,025</td>
</tr>
<tr>
<td>Current portion of estimated receivable for final settlements with third-party payors</td>
<td>6,399</td>
<td>-</td>
</tr>
<tr>
<td>Inventories</td>
<td>3,188</td>
<td>2,901</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>6,079</td>
<td>6,344</td>
</tr>
<tr>
<td>Current portion of funds held by Trustees</td>
<td>75,712</td>
<td>3,849</td>
</tr>
<tr>
<td>Total current assets</td>
<td>462,230</td>
<td>318,219</td>
</tr>
<tr>
<td>Assets limited as to use</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board-designated investments</td>
<td>229,121</td>
<td>260,819</td>
</tr>
<tr>
<td>Funds held by Trustees</td>
<td>180,876</td>
<td>19,907</td>
</tr>
<tr>
<td>Donor-restricted investments</td>
<td>208,117</td>
<td>260,919</td>
</tr>
<tr>
<td>Long-term investments</td>
<td>4,488</td>
<td>53,521</td>
</tr>
<tr>
<td>Property, plant and equipment, net</td>
<td>476,240</td>
<td>414,393</td>
</tr>
<tr>
<td>Grants receivable, less current portion</td>
<td>79,351</td>
<td>86,634</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>1,846,377</td>
<td>1,527,281</td>
</tr>
</tbody>
</table>

| Liabilities and Net Assets                |        |        |
| Current liabilities                      |        |        |
| Accounts payable and accrued expenses     | $149,983| $123,749|
| Deferred revenue                         | 19,198 | 15,656 |
| Current portion of estimated final settlements with third-party payors | - | 3,409 |
| Current portion of long-term debt and capital leases | 14,424 | 17,558 |
| Other current liabilities                | 42,136 | 7,384  |
| Total current liabilities                | 225,741| 167,556|
| Estimated final settlements with third-party payors | 42,039 | 46,861 |
| Obligations under capital leases         | 82,633 | 90,459 |
| Long-term debt                           | 396,713| 165,419|
| Other long-term liabilities              | 46,951 | 29,642 |
| Total liabilities                        | 794,077| 499,937|
| Commitments and contingencies            |        |        |
| Net assets                                |        |        |
| Unrestricted                              | 590,432| 469,857|
| Temporarily restricted                    | 445,515| 541,134|
| Permanently restricted                    | 16,353 | 16,353 |
| Total net assets                          | 1,052,300| 1,027,344|
| Total liabilities and net assets          | $1,846,377| $1,527,281|

The accompanying notes are an integral part of these financial statements.
Boston Medical Center  
(Parent company only)  
Statements of Operations  
Years Ended September 30, 2008 and 2007

(in thousands) 

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net patient service revenue</td>
<td>$965,875</td>
<td>$823,021</td>
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<tr>
<td>Grants and contract revenue</td>
<td>77,115</td>
<td>77,933</td>
</tr>
<tr>
<td>Other revenue</td>
<td>11,525</td>
<td>6,552</td>
</tr>
<tr>
<td>Net assets released from restrictions for operations</td>
<td>23,387</td>
<td>21,886</td>
</tr>
<tr>
<td><strong>Total operating revenue</strong></td>
<td>1,077,902</td>
<td>929,392</td>
</tr>
</tbody>
</table>

| **Operating expenses** |        |        |
| Salaries and wages      | 423,941 | 395,709 |
| Supplies and expenses   | 306,622 | 274,561 |
| Institutional support (Note 14) | 98,651 | 68,644 |
| Depreciation and amortization | 50,249 | 45,129 |
| Interest expense        | 11,062 | 12,757 |
| Provision for bad debts | 28,390 | 25,124 |
| Research, sponsored programs and community health services | 89,665 | 88,076 |
| **Total operating expenses** | 1,008,580 | 910,000 |

| **Gain from operations** | 69,322 | 19,392 |

| **Nonoperating (losses) gains, net** |        |        |
| Investment (loss) income (including other-than-temporary impairment losses of $28,530 and $2,300 in 2008 and 2007, respectively) | (11,134) | 20,094 |
| Other | (1,986) | 825 |
| **Total nonoperating (losses) gains, net** | (13,120) | 20,919 |

| **Excess of revenue over expenses** | 56,202 | 40,311 |

| **Other changes in unrestricted net assets** |        |        |
| Change in unrealized (depreciation) appreciation on investments | (9,370) | 11,019 |
| Net assets released from restrictions for property, plant and equipment | 78,415 | 63,447 |
| Pension related changes other than net periodic pension costs | (4,672) | - |
| Cumulative effect of changes in accounting principle | - | 52,423 |
| Adoption of accounting principle | - | (3,334) |
| **Change in unrestricted net assets** | $120,575 | $163,866 |

The accompanying notes are an integral part of these financial statements.
Boston Medical Center  
(Parent company only)  
Statements of Changes in Net Assets  
Years Ended September 30, 2008 and 2007

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net assets at September 30, 2006</strong></td>
<td>$ 305,991</td>
<td>$ 550,689</td>
<td>$ 16,353</td>
<td>$ 873,033</td>
</tr>
<tr>
<td>Increases (decreases) in net assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess of revenues over expenses</td>
<td>40,311</td>
<td></td>
<td></td>
<td>40,311</td>
</tr>
<tr>
<td>Investment income</td>
<td>-</td>
<td>18,275</td>
<td>-</td>
<td>18,275</td>
</tr>
<tr>
<td>Change in unrealized and realized appreciation on investments</td>
<td>11,019</td>
<td>21,228</td>
<td>-</td>
<td>32,247</td>
</tr>
<tr>
<td>Contribution revenue</td>
<td>36,275</td>
<td>-</td>
<td>-</td>
<td>36,275</td>
</tr>
<tr>
<td>Net assets released from restrictions for operations</td>
<td>-</td>
<td>(21,886)</td>
<td>-</td>
<td>(21,886)</td>
</tr>
<tr>
<td>Net assets released from restrictions for property, plant and equipment</td>
<td>63,447</td>
<td>(63,447)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cumulative effect of change in accounting principle</td>
<td>52,423</td>
<td>-</td>
<td>-</td>
<td>52,423</td>
</tr>
<tr>
<td>Adoption of accounting principle</td>
<td>(3,334)</td>
<td>-</td>
<td>-</td>
<td>(3,334)</td>
</tr>
<tr>
<td><strong>Total increase (decrease) in net assets</strong></td>
<td>$ 163,866</td>
<td>(9,555)</td>
<td>-</td>
<td>154,311</td>
</tr>
<tr>
<td><strong>Net assets at September 30, 2007</strong></td>
<td>469,857</td>
<td>541,134</td>
<td>16,353</td>
<td>1,027,344</td>
</tr>
<tr>
<td>Increases (decreases) in net assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess of revenues over expenses</td>
<td>56,202</td>
<td>-</td>
<td>-</td>
<td>56,202</td>
</tr>
<tr>
<td>Investment income</td>
<td>-</td>
<td>9,570</td>
<td>-</td>
<td>9,570</td>
</tr>
<tr>
<td>Change in unrealized and realized (depreciation) appreciation on investments</td>
<td>(9,370)</td>
<td>(56,489)</td>
<td>-</td>
<td>(65,859)</td>
</tr>
<tr>
<td>Contribution revenue</td>
<td>-</td>
<td>53,102</td>
<td>-</td>
<td>53,102</td>
</tr>
<tr>
<td>Net assets released from restrictions for operations</td>
<td>-</td>
<td>(23,387)</td>
<td>-</td>
<td>(23,387)</td>
</tr>
<tr>
<td>Net assets released from restrictions for property, plant and equipment</td>
<td>78,415</td>
<td>(78,415)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Pension related changes other than net periodic pension costs</td>
<td>(4,672)</td>
<td>-</td>
<td>-</td>
<td>(4,672)</td>
</tr>
<tr>
<td><strong>Total increase (decrease) in net assets</strong></td>
<td>$120,575</td>
<td>(95,619)</td>
<td>-</td>
<td>24,956</td>
</tr>
<tr>
<td><strong>Net assets at September 30, 2008</strong></td>
<td><strong>$ 590,432</strong></td>
<td><strong>$ 445,515</strong></td>
<td><strong>$ 16,353</strong></td>
<td><strong>$ 1,052,300</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
Boston Medical Center  
(Parent company only)  
Statements of Cash Flows  
Years Ended September 30, 2008 and 2007

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$24,956</td>
<td>$154,311</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accretion of discount on long-term grants</td>
<td>(3,744)</td>
<td>(4,015)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>50,249</td>
<td>45,129</td>
</tr>
<tr>
<td>Investment in NEIDL</td>
<td>(26,850)</td>
<td>(23,225)</td>
</tr>
<tr>
<td>Restricted contributions</td>
<td>(6,192)</td>
<td>(6,300)</td>
</tr>
<tr>
<td>Donated securities received</td>
<td>(464)</td>
<td>(273)</td>
</tr>
<tr>
<td>Amortization of bond discount</td>
<td>25</td>
<td>-</td>
</tr>
<tr>
<td>Discount and allowance for contributions receivable</td>
<td>7,339</td>
<td>3,764</td>
</tr>
<tr>
<td>Net realized losses (gains) and change in unrealized depreciation (appreciation) on investments</td>
<td>91,233</td>
<td>(42,619)</td>
</tr>
<tr>
<td>Equity in net losses of joint ventures</td>
<td>(1,478)</td>
<td>(1,184)</td>
</tr>
<tr>
<td>Cumulative effect of change in accounting principle</td>
<td>-</td>
<td>(52,423)</td>
</tr>
<tr>
<td>Increase in asset retirement obligation</td>
<td>104</td>
<td>-</td>
</tr>
<tr>
<td>Adoption of accounting principle</td>
<td>-</td>
<td>3,334</td>
</tr>
<tr>
<td>Provision for bad debts</td>
<td>28,390</td>
<td>25,124</td>
</tr>
<tr>
<td>Pension-related changes other than net periodic pension costs</td>
<td>4,672</td>
<td>-</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants receivable</td>
<td>6,745</td>
<td>12,995</td>
</tr>
<tr>
<td>Patient accounts receivable</td>
<td>(44,386)</td>
<td>(53,426)</td>
</tr>
<tr>
<td>Other current assets and liabilities</td>
<td>(112,706)</td>
<td>125,561</td>
</tr>
<tr>
<td>Other noncurrent assets and liabilities</td>
<td>7,558</td>
<td>20,220</td>
</tr>
<tr>
<td>Estimated final settlements with third-party payors</td>
<td>(14,630)</td>
<td>18,808</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>26,344</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>37,165</td>
<td>211,396</td>
</tr>
<tr>
<td><strong>Investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in NEIDL (Note 19)</td>
<td>(16,371)</td>
<td>(2,636)</td>
</tr>
<tr>
<td>Investment in NAB Business Trust</td>
<td>(53,867)</td>
<td>-</td>
</tr>
<tr>
<td>Investments in subsidiaries, net</td>
<td>(7,761)</td>
<td>(1,837)</td>
</tr>
<tr>
<td>Purchases of short-term investments</td>
<td>(403)</td>
<td>(153,825)</td>
</tr>
<tr>
<td>Proceeds from sale of short-term investments</td>
<td>85,176</td>
<td>144,265</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(479,448)</td>
<td>(251,512)</td>
</tr>
<tr>
<td>Proceeds from sale of investments</td>
<td>486,282</td>
<td>142,776</td>
</tr>
<tr>
<td>Purchase of property, plant and equipment</td>
<td>(94,189)</td>
<td>(60,677)</td>
</tr>
<tr>
<td>Proceeds from sales of donated securities</td>
<td>464</td>
<td>273</td>
</tr>
<tr>
<td>Increase in construction fund from new borrowings</td>
<td>(197,279)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(277,196)</td>
<td>(183,173)</td>
</tr>
<tr>
<td><strong>Financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment of long-term debt and capital leases</td>
<td>(17,575)</td>
<td>(18,175)</td>
</tr>
<tr>
<td>Proceeds from restricted contributions</td>
<td>6,192</td>
<td>6,300</td>
</tr>
<tr>
<td>Proceeds from borrowings</td>
<td>237,884</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) financing activities</strong></td>
<td>226,501</td>
<td>(11,875)</td>
</tr>
<tr>
<td>(Decrease) increase in cash and cash equivalents</td>
<td>(13,530)</td>
<td>16,348</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>20,844</td>
<td>4,496</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td>$7,314</td>
<td>$20,844</td>
</tr>
<tr>
<td><strong>Supplemental disclosure of noncash activities</strong></td>
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<td></td>
</tr>
<tr>
<td>Cash paid for interest</td>
<td>$7,911</td>
<td>$12,824</td>
</tr>
<tr>
<td>Property, plant, and equipment included in accounts payable</td>
<td>3,904</td>
<td>5,314</td>
</tr>
<tr>
<td>Conditional asset retirement obligations</td>
<td>949</td>
<td>845</td>
</tr>
<tr>
<td>Net fixed assets recognized related to conditional asset retirement obligations</td>
<td>(265)</td>
<td>(237)</td>
</tr>
<tr>
<td>Contributed securities</td>
<td>464</td>
<td>273</td>
</tr>
<tr>
<td>Investment in NEIDL</td>
<td>26,850</td>
<td>23,225</td>
</tr>
</tbody>
</table>

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

Boston Medical Center (parent company only) (the "Medical Center" or "BMC") was incorporated on July 1, 1996 when all of the assets and liabilities of University Hospital, Inc. (a.k.a. Boston University Medical Center Hospital-BUMCH) and its subsidiaries were merged with and into the Medical Center. In addition, specific assets and liabilities of Boston City Hospital (BCH), Boston Specialty and Rehabilitation Hospital (BSRH) and Trustees of Health and Hospitals, Inc. (THH), as indicated in the Consolidation Agreement, were transferred by the City of Boston (the City) to the Medical Center. The merger of BUMCH into the Medical Center was accounted for as a pooling of interests, and the consolidation of certain assets and liabilities of BCH, BSRH and THH into the Medical Center was accounted for as a contribution of net assets. Accordingly, the balance sheet includes all the assets, liabilities and net assets of the former BUMCH and only certain assets, liabilities and net assets of the former BCH, BSRH and THH. The contribution of net assets by the City of $58,700,000 included cash, accounts receivable, inventory and moveable equipment less certain trade accounts payable.

Univer Development Foundation, Inc. (UDF) is a Massachusetts Corporation involved in real estate development activities. UDF is wholly owned by the Medical Center.

East Concord Medical Foundation, Inc. (ECMF) is a Massachusetts Corporation involved in real estate development activities. ECMF is a joint venture between the Medical Center and the Trustees of Boston University, each owning 50%. ECMF has been fully consolidated with the Medical Center as the Medical Center guarantees 100% of the debt of ECMF.

BMC Management Services, Inc. (MSO) was organized to arrange delivery of health care services to enrollees or beneficiaries of: preferred provider health insurance arrangements, health maintenance organizations, corporate employee benefit plans, prepaid health plans, and other alternative delivery system contracts with medical service providers. MSO promotes the development of an integrated delivery system to more efficiently and effectively meet the healthcare needs of the community. This delivery system will benefit the community by attracting a continuum of patients with diverse medical problems that will contribute to research, education, clinical care and teaching activities. MSO contracts on behalf of the Medical Center, its physicians, and other community health centers. MSO is owned 50% by BMC and 50% by the Foundation.

These financial statements do not include the combined accounts of Faculty Practice Foundation, Inc. (Faculty) and its 21 affiliated faculty practice plans (the Plans, collectively known as the Foundation), the Boston Medical Center Health Plan, Inc. (BMCHP), Boston Medical Center Insurance Company, Ltd. (BMCIC), Boston Medical Center Insurance Company, Ltd. of Vermont (BMCIC of Vermont), Gryant, Inc. or BMC NAB Business Trust.

The Foundation became affiliated with the Medical Center during the year ended September 30, 2001 and has a fiscal year-end of June 30. The Foundation had total net assets of $99,873,000 and $100,773,000 as of June 30, 2008 and 2007, respectively, and total assets of $140,786,000 and $123,751,000 as of June 30, 2008 and 2007, respectively. The Foundation had total operating revenue of $248,638,000 and $219,816,000 for the years ended June 30, 2008 and 2007, respectively, before any eliminations, and a decrease in unrestricted net assets of $899,959 and $5,230,000 for the years ended June 30, 2008 and 2007, respectively.
BMCHP was established as an independent 501(c)(3) organization on July 1, 1997. BMCHP was established to administer the BMC HealthNet Plan, which is a capitated provider-sponsored program of The Commonwealth of Massachusetts' Division of Medical Assistance (DMA) designed to provide medical coverage to people who are covered by Medicaid. All of BMCHP's capitation revenue is generated from enrollment in the prepaid health plan established by DMA. BMCHP is a wholly-owned subsidiary of the Medical Center. BMCHP had total net assets of $187,433,000 and $138,841,000 as of September 30, 2008 and 2007, respectively, and total assets of $306,225,000 and $244,461,000 as of September 30, 2008 and 2007, respectively. BMCHP had total operating revenue of $1,108,108,000 and $828,162,000, before eliminations, and an increase in unrestricted net assets of $48,592,000 and $28,881,000 for the years ended September 30, 2008 and 2007, respectively.

Effective June 30, 2002, the Medical Center and the Foundation established BMCIC for purposes of providing professional and general liability insurance to each entity, its physicians and employees. BMCIC is owned 70% by the Medical Center and 30% by the Foundation. BMCIC had net income of $0 for the years ending September 30, 2008 and 2007. BMCIC had total shareholder's equity of $11,695,000 and $11,695,000 and total assets of $106,408,000 and $91,442,000 as of September 30, 2008 and 2007, respectively.

BMCIC of Vermont was incorporated on October 7, 2004 as a single parent captive insurance company licensed by the State of Vermont. BMCIC of Vermont provided insurance coverage from December 31, 2004 until December 31, 2005. BMCIC of Vermont provided coverage for the Medical Center for property and for certain liability exposures arising from acts of terrorism under the Terrorism Risk Insurance Act of 2002 (TRIA). All coverages provided by BMCIC of Vermont were on a claims-made basis. BMCIC of Vermont ceased to provide coverage, effective December 31, 2005, because TRIA expired on December 31, 2005 and was not extended by the federal government. BMCIC of Vermont had total shareholder's equity of $295,660 and $303,369 and total assets of $333,160 and $340,869 as of September 30, 2008 and 2007, respectively.

Gryant, Inc. is a Massachusetts Corporation organized under Chapter 156D of the General Laws of Massachusetts for real estate development activities. Gryant, Inc. is wholly owned by the Medical Center.

BMC NAB Business Trust was organized in May 2008 as a Massachusetts business trust under Chapter 182 of the General Laws of Massachusetts. The Medical Center is the 90% manager/member as well as the 90% shareholder and trustee, and QMC ED Physicians, a subsidiary of Quincy Medical Center, is a 10% shareholder. The Medical Center has an option to purchase Quincy Medical Center's interest for $100,000. Management has recorded the net present value of this interest of $70,000 in other long-term assets and liabilities.
2. Summary of Significant Accounting Policies

Principles of Consolidation
The financial statements include the accounts of the Medical Center, ECMF, MSO and UDF. Significant intercompany accounts and transactions have been eliminated. Boston Medical Center publishes consolidated financial statements, their primary financial statements, which include the aforementioned entities, the Foundation, BMCHP, BMCIC, BMCIC of Vermont, Gryant and NAB Business Trust. The financial statements within have been prepared solely for the purpose of additional analysis.

Cash and Cash Equivalents
Cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less at date of purchase.

Short-Term Investments
Short-term investments include certain investments in money market mutual funds and private investment funds which the Medical Center intends on using for operations within a year.

Investments
Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet primarily based on quoted market prices. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. The change in unrealized (depreciation) appreciation on investments are recorded in the statement of operations as changes in unrestricted net assets, unless their use is restricted by explicit donor-imposed stipulations or law, in which case they are reported in the appropriate restricted class of net assets.

The Medical Center has invested in privately held investment funds for which management determined the Medical Center does not exercise influence over decision making of the fund. As a result, management is recording these investments on a cost basis. The investments were recorded at $17,000,000 and $73,700,000 at September 30, 2008 and 2007, respectively. During 2008, the Medical Center sold approximately $53,000,000 of these investments.

The fair value of the Medical Center's investments in bonds, notes, and common stock is based on quoted market prices in an active market. At September 30, 2008 and 2007, the Medical Center held interests in private investment funds. Interests in private investment funds are generally recorded at fair market value based on the Medical Center's ownership share and rights of the investment, unless certain criteria require the investment to be recorded at cost. Securities for which no such quotations or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers. The Medical Center believes that these valuations are a reasonable estimate of fair value as of September 30, 2008 and 2007, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed. The Medical Center has the ability to liquidate their investments periodically in accordance with the provisions of the respective fund agreements.
Assets Limited as to Use
Assets limited as to use primarily include assets held by trustees under bond indenture agreements and designated assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes. Also included are donor-restricted investments representing permanently and temporarily restricted net assets.

Property, Plant and Equipment
Property, plant and equipment is reported on the basis of cost less accumulated depreciation and amortization. Donated items are recorded at fair market value at the date of contribution. Depreciation and amortization, which includes the amortization of assets recorded under capital leases, are provided on the straight-line method at rates intended to amortize the cost of related assets over their estimated useful lives. When assets are disposed of, the assets and related accumulated depreciation are eliminated from the accounts and any gain or loss is reflected in nonoperating gains and losses.

Assessment of Long-Lived Assets
The Medical Center periodically reviews the carrying value of its long-lived assets (primarily property, plant and equipment) to assess the recoverability of these assets; any impairments would be recognized in operating results, if the reduction in value is considered to be other than temporary.

Inventories
Inventories are stated at the lower of cost (first-in, first-out method) or market.

Other Noncurrent Assets
Other noncurrent assets consist of the Medical Center’s investments in Medical Research Realty Trust, the 650 Albany Street Trust, University Associates Limited Partnership through UDF, National Emerging Infectious Diseases Laboratory (NEIDL) (Note 19), BCD Building LLC (BCD), FGH Building LLC (FGH), notes receivable and unamortized bond issuance expenses. The investments in Medical Research Realty Trust, 650 Albany Street Trust, University Associates Limited Partnership through UDF, NEIDL, BCD and FGH are recorded utilizing the equity method of accounting. Unamortized bond issuance expenses are amortized over the life of the related bonds.

The Medical Center has financed the cost of renovating two existing structures and for new construction of a third building on its campus using the New Markets Tax Credit (“NMTC”) program. The use of NMTC is a program of the Community Development Financial Institutions Fund (“CDFI Fund”), a bureau of the United States Treasury. The NMTC program awards tax incentives to private sector investors who provide investment capital to entities that create economic growth and jobs in distressed neighborhoods. Investors receive a tax credit against federal income taxes over a seven-year period.

In 2005, the Medical Center was the beneficiary of an allocation of NMTC that was awarded to Affirmative Investments, Inc. These NMTC and federal historic tax credits were used as part of a financing package to reduce the cash required by the Medical Center to rehabilitate the BCD Building. The financing required the Medical Center to loan approximately $5,800,000 and $6,100,000 to a third party relating to project costs of $16,000,000 to perform building improvements on the BCD building. Both loans are recorded as other noncurrent assets at September 30, 2008, but $5,800,000 is considered permanent financing and will be reclassified to
property, plant and equipment once the Medical Center takes ownership, which is expected at the end of the seven-year period when the tax incentives for the investor have been exhausted. The $6,100,000 loan will be repaid to the Medical Center by a third party. The loans have an interest rate of 5.12% and have been recorded as notes receivable with accrued interest of $784,074 as of September 30, 2008. As of September 30, 2008, the Medical Center recorded $1,300,000 as an investment in BCD.

The Medical Center has entered into four Put and Call Option Agreements in connection with the redevelopment of the BCD Building. If the put options or the call options are not executed, two of the agreements terminate on December 22, 2014, and the other two terminate on June 5, 2016. The purpose of the Put and Call Option Agreements is to ensure that BMC regains control of the rehabilitated building at the end of the NMTC period. This is accomplished by acquiring the interests of all investment members for $1,472,005. The Medical Center has calculated that the net present value of acquiring the interest of all investors totals $1,055,631, which the Medical Center recorded on September 30, 2008 as long-term assets and liabilities.

During 2006, the Medical Center loaned approximately $11,600,000 and $9,000,000 to a third party relating to project costs of $21,000,000 to perform building improvements on the Medical Center's FGH Building. These loans are part of a second financing package that utilizes new market tax credits to reduce the cash required by the Medical Center to rehabilitate the facility. Both loans are recorded as other noncurrent assets at September 30, 2008, but $11,600,000 is considered permanent financing and will be reclassified to property, plant and equipment once the Medical Center takes ownership at the end of seven years. The $9,000,000 will be repaid to the Medical Center by a third party. The loans have an interest rate of 3.50% and 3.00%, respectively, and have been recorded as notes receivable as of September 30, 2008 with accrued interest of $256,888. The Medical Center has recorded $2,275,913 and $660,000 as an investment in FGH as of September 30, 2008 and 2007, respectively.

The Medical Center has entered into four Put and Call Option Agreements in connection with the redevelopment of the FGH Building. All of the agreements terminate on December 20, 2015 if the put options or the call options are not executed. The purpose of the Put and Call Option Agreements is to ensure that BMC regains control of the rehabilitated building at the end of the NMTC period. This is accomplished by acquiring interests of all investment members for $1,654,115. The Medical Center has calculated that the net present value of acquiring the interest of all investors totals $1,125,044, which the Medical Center recorded on September 30, 2008 as long-term assets and liabilities.

During 2008, the Medical Center loaned $53,666,700 to a third party relating to project costs of $190,110,000 for the demolition of 91 East Concord Street and for the design, construction, and equipping of the Shapiro Ambulatory Care Center. The loan is part of a financing package that utilizes $70,000,000 of new markets tax credits to reduce cash required by the Medical Center to construct this new facility. The loan is recorded as other noncurrent assets as of September 30, 2008 and will be reclassified to property, plant and equipment once the Medical Center takes ownership at the end of the lease period. The loan has an interest rate of 3.849%, and has been recorded as notes receivable as of September 30, 2008 with accrued interest of $797,770. The loan from the Medical Center was combined with a third party capital contribution in the amount of $16,333,300 in an investment fund totaling $70,000,000. The total amount in the investment fund was used to make a “qualified equity investment” into community development entities (CDEs). The CDEs, in turn, are required to make a series of loans totaling $68,900,000 to the BMC NAB Business Trust for the construction of the facility.
Included in the capital contribution was a low interest loan in the amount of $2,916,650 which must be repaid by the BMC NAB Business Trust at the end of this loan period.

As part of this financing transaction, there is a provision for an assignment of all loans to the Medical Center on the seventh anniversary of the transaction. As a financial incentive to trigger the assignment of all the loans, the loans will have a $5,000,000 principal payment due at the end of the seven years.

At this time, the outstanding loans, except the low interest loan in the amount of $2,916,650 which will be paid in full by the BMC NAB Business Trust, will be assigned to and recorded as a liability to the Medical Center. The Medical Center thus becomes the sole lender to the BMC NAB Business Trust. The Medical Center will have the option to terminate the business trust lease at that time and terminate the loans, eliminating the ownership structures created for the NMTC transaction.

Net Assets
Permanently restricted net assets include only the historical dollar amount of gifts, which are required by donors to be held in perpetuity. Temporarily restricted net assets include gifts, grants, investment income, including realized gains and losses, and the change in unrealized appreciation (depreciation) on investments, which can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions, time restrictions and restrictions imposed by law on the use of capital appreciation on donor restricted funds.

Realized gains and losses are classified as unrestricted net assets unless they are restricted by the donor or the law. Unless permanently restricted by the donor, realized and unrealized net gains on permanently restricted gifts are classified as temporarily restricted until appropriated for spending by the Medical Center in accordance with policies established by the Medical Center and the Massachusetts Management of Institutional Funds Act. Unrestricted net assets include all the remaining net assets of the Medical Center. See Note 8 for further information on the composition of restricted net assets.

Gifts and Grants
Gifts of long-lived assets with explicit restrictions that specify the use of assets and gifts of cash or other assets that must be used to acquire long-lived assets are reported as additions to temporarily restricted net assets. Gifts of long-lived assets and gifts specified for the acquisition or construction of long-lived assets are reported as additions to unrestricted net assets when the assets are placed in service and are excluded from the excess of revenues over expenses.

Unconditional promises to give cash and other assets to the Medical Center are reported at fair value on the date the promise is received. Conditional promises to give, and indications of intentions to give, are reported at fair value on the date the contribution is received. The contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or as unrestricted contributions if no such conditions exist. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of operations as net assets released from restrictions.
Grants and contracts are recognized as unrestricted revenues as the related expenditures are incurred. The Medical Center recognizes indirect cost recoveries at provisional rates, which are subject to audit, for U.S. Government grants and contracts and negotiated rates for other grants and contracts.

**Self-Insurance Reserves**
The Medical Center is self-insured for certain employee health care benefits, workers' compensation and certain other employee benefits. These costs are accounted for on an accrual basis to include estimates of future payments on claims incurred as of the balance sheet date.

**Professional Liability Insurance**
Through June 30, 2002 the Medical Center maintained medical malpractice insurance on an occurrence basis for residents and on a claims-made basis for interns, the Medical Center and its employees. Certain policies include deductibles per case. Effective July 1, 2002 the Medical Center maintains medical malpractice insurance on a modified claims-made basis for residents, interns and physicians, the Medical Center and its employees, all of which are provided by BMCIC. The Medical Center has provided for the estimated cost of incurred but not reported malpractice claims and an estimate for amounts payable on the deductibles.

**Net Patient Service Revenue**
Net patient service revenue is reported at the estimated net realizable amounts, excluding charges related to charity accounts, from patients and third-party payors. It includes estimates of anticipated retroactive adjustments under reimbursement agreements with certain third-party payors, including Medicare and Medicaid. Such adjustments are accrued in the period the related services are provided and adjusted in subsequent periods, as final settlements are determined.

**Statements of Operations**
All activities of the Medical Center deemed by management to be ongoing or central to the provision of health care services, training and research activities are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

The statement of operations includes the excess of revenues over expenses. Changes in unrestricted net assets which are excluded from the excess of revenues over expenses, consistent with industry practice, include the change in unrealized (depreciation) appreciation on investments, permanent transfers of assets to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and pension-related changes other than net periodic pension costs.

Favorable changes in prior year estimates from third-party payors recorded in the years ended September 30, 2008 and 2007 amounted to approximately $1,869,000 and $0, respectively.

In September 2006, the Securities and Exchange Commission staff issued Staff Accounting Bulletin (“SAB”) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify and assess the materiality of financial statement misstatements. Although the SAB is directly applicable to public companies, the Medical Center has elected to follow the prescribed guidance, by analogy.
Traditionally, there have been two accepted methods for quantifying and assessing the materiality of the effects of financial statement misstatements: the "rollover" method and the "iron curtain" method. The rollover method focuses primarily on the impact of a misstatement on the statement of operations - including the reversing effect of prior year misstatements - but its use can lead to the accumulation of misstatements in the balance sheet. The iron curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year misstatements on the statement of operations. Prior to the application of SAB 108, the Medical Center used the rollover method for quantifying and assessing the materiality of financial statement misstatements.

SAB 108 establishes an approach that requires quantification and assessment of the materiality of financial statement misstatements based on the effects of the misstatements on each of the Medical Center's financial statements and the related financial statement disclosures. This model is commonly referred to as a "dual approach" because it requires quantification and assessment of the materiality of misstatements under both the iron curtain and the rollover methods. SAB 108 permits companies to initially apply its provisions either by (i) restating prior financial statements as if the dual approach had always been applied or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities with an offsetting adjustment recorded to the opening balance of unrestricted net assets. The Medical Center elected to record the effects of applying SAB 108 using the cumulative effect transition method.

As is industry practice, the Medical Center recorded estimated accruals for settlements with third-party payors. The adoption of SAB 108 as of October 1, 2006 resulted in a decrease in accruals for settlements with third-party payors of $52,000,000 and was recorded as a cumulative effect of a change in accounting principle in fiscal year 2007.

Third-Party Liabilities for Patient Services
Under the terms of contractual agreements, certain elements of third-party reimbursement are subject to negotiation, audit and/or final determination by third-party payors. The accompanying financial statements include certain estimates of final settlements. Variances between estimated and final settlements are included in the statement of operations in the year in which the settlement or change in estimate occurs.

The Medical Center has classified a portion of the accrual for settlements with third-party payors as long-term liabilities because such amounts, by their nature, or by virtue of regulation or legislation, will not be paid within one year.

Deferred Revenue
Deferred revenue consists of amounts received in advance of the contract period. Certain advances are received from The Commonwealth of Massachusetts (the Commonwealth) in advance related to grants. Advances received related to grants were $19,198,000 and $15,656,000 as of September 30, 2008 and 2007, respectively.

Charity Care
The Medical Center provides care without charge to patients who meet certain criteria under its charity care policy. Since the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The Medical Center maintains records to identify and monitor the level of free care it provides. Through the Commonwealth's Uncompensated Care Pool (UCCP), the Medical Center receives reimbursement for a significant portion of the charity care it provides.
The Medical Center provided free care of $118,719,793 and $165,550,084 in 2008 and 2007, respectively, based on charges forgone at established rates. Under health care reform all documented Massachusetts citizens who were once eligible for charity care are now required to be enrolled in one of the subsidized Commonwealth Care insurance products. Those patients who are over 300% of the federal poverty guidelines are now required to buy into an affordable insurance product either offered by their employer or the Commonwealth Care Connector or face financial penalties. Many of the Medical Center's patients that were previously uninsured are now enrolled in various health insurance plans in an effort to comply with the State's healthcare reform mandate.

**Use of Estimates**

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

**Income Taxes**

The Medical Center, ECMF, and UDF are nonprofit corporations and have been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. MSO is a taxable entity.

**Reclassifications**

Certain amounts from the 2007 financial statements have been reclassified to conform to the 2008 presentation.

**Revised Classifications**

The 2007 statement of cash flows was revised to conform to the 2008 classification. These amounts include the receipt of donated securities, restricted contributions and the investment in the National Emerging Infectious Diseases Laboratory (NEIDL).

The receipt of donated securities of $273,000 has been included in operating activities as a noncash adjustment. The liquidation of these securities has also been reflected as proceeds from sales of donated securities as an investing activity.

The restricted contributions balance in both operating and financing activities was reduced by $29,975,000 based upon actual cash activity.

A portion of the investment in NEIDL is funded with cash received from the National Institutes of Health (NIH). The reimbursement from NIH is made directly to Boston University. In 2007, the increase in the investment balance included $23,225,000 which was paid directly to Boston University. The operating and investing activities have been revised to reflect actual cash received and paid.

Management does not believe that these revised classifications have a material impact on the 2007 financial statements.
Adoption of Accounting Principle
Effective for fiscal year September 30, 2007, the Medical Center adopted SFAS No. 158, 
Employer's Accounting for Defined Benefit and Other Postretirement Plans. The adoption of this 
accounting principle is discussed in Note 11.

Recent Accounting Pronouncements
Financial Accounting Standards Board Statement No. 157, Fair Value Measurements (FAS 157), 
was issued in September 2006. FAS 157 provides a definition of fair value, establishes a 
framework for measuring fair value in generally accepted accounting principles (GAAP), and 
expands disclosure requirements regarding fair value measurements. This standard does not 
require any new fair value measurement, but rather, requires a consistent application of the 
definitions prescribed in this statement to other accounting pronouncements wherein fair value is 
deemed the relevant measurement attribute. FAS 157 is effective for the Medical Center for its 
issued FASB Staff Position No. 157-2 (FSP 157-2), which delays the effective date of FAS 157 for 
one year for all nonfinancial assets and liabilities, except those that are recognized or disclosed at 
fair value in the financial statements on a recurring basis. FSP 157-2 is effective for the Medical 
Center for its year ending September 30, 2010.

Financial Accounting Standards Board Statement No. 159, The Fair Value Option for financial 
Assets and financial Liabilities, including an amendment of FASB Statement No. 115 (FAS 159), 
was issued in February 2007. FAS 159 allows an entity the option of recording eligible items at fair 
value at specified election dates. Any unrealized gains and losses on items for which the fair value 
option has been elected, will be reported within the earnings of a business entity and within the 
operating indicator for healthcare organizations at each subsequent reporting date. FAS 159 is 
effective for the Medical Center for its year ending September 30, 2009.

3. Investments and Assets Limited as to Use

Short-term and long-term investments and assets limited as to use consist of the following at 
September 30:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$11,064</td>
<td>$1,561</td>
</tr>
<tr>
<td>Bonds and U.S. Treasury Notes</td>
<td>130,248</td>
<td>128,915</td>
</tr>
<tr>
<td>Private investment funds</td>
<td>149,209</td>
<td>266,735</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>94,864</td>
<td>123,684</td>
</tr>
<tr>
<td>Marketable equity securities</td>
<td>56,629</td>
<td>78,843</td>
</tr>
<tr>
<td>Money market mutual funds</td>
<td>1,314</td>
<td>61,983</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>443,328</td>
<td>661,721</td>
</tr>
<tr>
<td>Funds held by trustees</td>
<td>256,588</td>
<td>23,756</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$699,916</td>
<td>$685,477</td>
</tr>
</tbody>
</table>
Included in private investment funds (as described in the American Institute of Certified Public Accountants document, *A Practice Aid for Auditors: Alternative Investments - Audit Considerations*) are alternative investment vehicles including commingled funds with an estimated fair value of approximately $87,401,000 and $125,418,000 at September 30, 2008 and 2007, respectively.

Total return on the Medical Center's investment portfolio, which includes investment income, net realized gains (losses) and the change in the unrealized (depreciation) appreciation on investments, includes the following for the years ended September 30:

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrestricted</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends and interest</td>
<td>$15,680</td>
<td>$21,382</td>
</tr>
<tr>
<td>Net realized (losses) on investments</td>
<td>(26,814)</td>
<td>(1,288)</td>
</tr>
<tr>
<td>Change in unrealized (depreciation) appreciation on investments</td>
<td>(9,370)</td>
<td>11,019</td>
</tr>
<tr>
<td></td>
<td>(20,504)</td>
<td>31,113</td>
</tr>
<tr>
<td><strong>Temporarily restricted</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends and interest</td>
<td>8,130</td>
<td>6,615</td>
</tr>
<tr>
<td>Net realized gains on investments</td>
<td>1,440</td>
<td>11,660</td>
</tr>
<tr>
<td>Change in unrealized (depreciation) appreciation on investments</td>
<td>(56,489)</td>
<td>21,228</td>
</tr>
<tr>
<td></td>
<td>(46,919)</td>
<td>39,503</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(67,423)</strong></td>
<td><strong>70,616</strong></td>
</tr>
</tbody>
</table>

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets and statements of operations.

Investments are periodically reviewed for impairment to determine if such declines are other than temporary. Management's review is based upon the percentage and period of time that the investment is below cost as well as other qualitative considerations. During 2008 and 2007, the Medical Center reported realized losses of approximately $28,530,000 and $2,300,000, respectively, relating to declines in fair value of investments that were determined by management to be other than temporary.

Subsequent to September 30, 2008, the U.S. and global financial markets have experienced significant volatility and illiquidity, due in part, to current economic conditions and declines in the financial sector. The Medical Center's investment portfolio has experienced similar negative volatility. However, the Medical Center has been able to maintain its liquidity and its operations have not been significantly impacted.
4. Contributions Receivable

Contributions receivable are recorded as part of other accounts receivable on the balance sheet. Contributions receivable, net, are summarized as follows as of September 30:

Unconditional promises expected to be collected in:

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than year</td>
<td>$8,363</td>
<td>$7,841</td>
</tr>
<tr>
<td>One year to five years</td>
<td>17,060</td>
<td>14,375</td>
</tr>
<tr>
<td>More than five years</td>
<td>7,700</td>
<td>700</td>
</tr>
<tr>
<td></td>
<td>33,123</td>
<td>22,916</td>
</tr>
<tr>
<td>Less discounts and allowance for uncollectible accounts</td>
<td>(7,339)</td>
<td>(3,764)</td>
</tr>
<tr>
<td>Net contributions receivable</td>
<td>$25,784</td>
<td>$19,152</td>
</tr>
</tbody>
</table>

Discount rates used to calculate the present value of contributions receivable ranged from 4.0% - 5.48%, depending upon the anticipated pledge fulfillment date.

5. Property, Plant and Equipment

The property, plant and equipment of the Medical Center consists of the following at September 30:

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>Useful Life</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and improvements</td>
<td>5-40 years</td>
<td>$5,893</td>
<td>$5,856</td>
</tr>
<tr>
<td>Buildings</td>
<td>15-45 years</td>
<td>161,474</td>
<td>150,201</td>
</tr>
<tr>
<td>Building and leasehold improvements</td>
<td>5-40 years</td>
<td>222,597</td>
<td>161,667</td>
</tr>
<tr>
<td>Fixed equipment</td>
<td>5-25 years</td>
<td>58,507</td>
<td>58,428</td>
</tr>
<tr>
<td>Major movable equipment</td>
<td>3-20 years</td>
<td>255,442</td>
<td>217,194</td>
</tr>
<tr>
<td>Leased buildings and equipment</td>
<td>15-20 years</td>
<td>218,806</td>
<td>218,806</td>
</tr>
<tr>
<td>Construction in progress</td>
<td></td>
<td>77,156</td>
<td>75,627</td>
</tr>
<tr>
<td></td>
<td></td>
<td>999,875</td>
<td>887,779</td>
</tr>
<tr>
<td>Accumulated depreciation and amortization</td>
<td>(523,635)</td>
<td>(473,386)</td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment, net</td>
<td></td>
<td>$476,240</td>
<td>$414,393</td>
</tr>
</tbody>
</table>

Depreciation expense amounted to $50,249,000 and $45,129,000 for the years ended September 30, 2008 and 2007, respectively.

The Master Trust Indenture places certain restrictions on property, plant and equipment in terms of the creation of liens and transfers of assets.

The Medical Center did not retire any property, plant, and equipment for both the years ended September 30, 2008 and 2007.

The Medical Center has capitalized interest in the amount of $6,449,000 and $2,748,000 for the years ended September 30, 2008 and 2007, respectively.
6. Long-Term Debt

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

\[
\begin{array}{lcl}
\text{(in thousands)} & 2008 & 2007 \\
\text{Massachusetts Health and Educational Facilities Authority} & $245,175 & $ - \\
\text{Revenue Bonds Series B} & 133,295 & 137,310 \\
\text{Revenue Bonds Series A} & - & 3,300 \\
\text{HEFA periodic auction reset securities} & 12,800 & 13,500 \\
\text{ECMF Series A Bonds} & 2,376 & 3,495 \\
\text{Series M - Refinancing} & 12,895 & 13,255 \\
\text{Series M - Tax Exempt (Garage)} & 4,037 & 4,150 \\
\text{Series M - Taxable (Garage)} & 403,578 & 175,010 \\
\text{Less current portion of long-term debt} & (6,599) & (9,591) \\
\text{Less revenue Bonds Series B discount} & (7,266) & - \\
\text{Total} & $396,713 & $165,419 \\
\end{array}
\]

In July 2008, the Medical Center issued through the Massachusetts Health and Educational Facilities Authority (the "Authority") $245,175,000 Series B Revenue Bonds. The bonds were issued to finance the cost of demolition of 91 East Concord Street, the design, construction and equipping of the Shapiro Ambulatory Care Center, the design and construction of a 2-story addition to the Menino Pavilion, and routine capital expenditures. The interest rate on the Series B Revenue Bonds varies from 4.00% to 5.75% based on the maturities. Principal and sinking fund payments will be made annually between 2012 and 2038 and range from $590,000 to $26,430,000.

The Medical Center has granted a mortgage on the Newton Pavilion and Health Services building and a negative pledge on the restricted property of the Menino Pavilion and the Yawkey Ambulatory Care Center pursuant to the Amended and Restated Master Trust Indenture. The Amended and Restated Master Trust maintains the financial covenant requiring the Medical Center to maintain an annual debt service coverage ratio of at least 1.10 to 1.

The Medical Center is currently the only member of the Obligated Group. These financial statements include affiliates of the Medical Center who are not members of the Obligated Group. These financial statements represent the Obligated Group and three financially immaterial affiliates that are not members of the Obligated Group (Univer, ECMF, and the MSO).

In July 1998, the Medical Center issued through the Authority $156,370,000 Series A Revenue Bonds. The interest rate on the Series A Revenue Bonds varies from 4.2% to 5.25% based on the maturities. Principal and sinking fund payments will be made annually from 2009 to 2029 and range from $4,215,000 to $8,955,000. The bonds are redeemable at the option of the Medical Center prior to maturity between July 1, 2008 and June 30, 2009 at 101% and at decreasing amounts to 100% in 2010 and thereafter.

The Amended and Restated Master Trust Indenture covers the obligations of both Series B (2008) and the Series A Revenue Bonds.
The Medical Center issued Periodic Auction Reset Securities (PARS) through the Authority on January 19, 1989 in the amount of $25,000,000. Principal payments were made semiannually through 2008 and ranged from $1,600,000 to $1,700,000. Final payment was made in April 2008.

ECMF issued $17,200,000 of bonds (the “ECMF Series A Bonds”) through the Authority on March 7, 2000. The bonds were issued in two separate issuances with $5,900,000 of the bonds maturing in 2010 (the “2010 Bonds”) and $11,300,000 of the bonds maturing in 2020 (the “2020 Bonds”). Principal payments are made on an annual basis through 2020 and range from $700,000 to $1,500,000. The interest rate on the 2010 bonds is 5.85% and the interest rate on the 2020 bonds is 6.45%. The bonds are redeemable at any time at the option of ECMF at their principal amounts plus accrued interest. The bonds are collateralized by a grant of mortgage on the project, a pledge of all revenues to be received by ECMF and the Medical Center’s guaranty of payment of total debt service on the bonds.

On October 3, 2005, the Medical Center closed on three loans, Series M-Refinancing, Tax Exempt and Taxable, from the Authority. These loans are funded from the proceeds of the Authority’s Variable Rate Demand Revenue Bonds, Pool Loan Program Issue Series M-3B (2005), Pool 3 and Series M-5A (2005), Pool 5 Taxable.

The Series M-Refinancing loan was a tax-exempt loan in the amount of $5,195,000 that was authorized to refinance the outstanding balance of the Capital Asset Program Loan/Series B/C Pool loan. The bonds were issued with a five-year term and will mature in 2010, the same maturity of the prior loan.

The Series M-tax exempt and taxable loans totaling $17,850,000 were issued to fund the Medical Center’s share of the design and construction of the Biosquare Parking Garage II. The tax-exempt portion represents 76% of the funds and the taxable portion represents 24%. The bonds were issued with a twenty-year term and will mature in 2027.

For the three loans, interest is payable at varying rates, which are reset weekly. During the last two weeks of September 2008, the variable rate demand bond market experienced considerable pressure because of liquidity and market volatility. The interest rates at September 30, 2008 were 9.0% and 10.0% for the tax exempt and taxable loans, respectively. During October 2008, variable rate demand bonds reset at lower rates and by October 30, 2008, rates were 2.0% and 4.7% for the tax exempt and taxable loans, respectively.

All three are supported with Letters of Credit from Citizens Bank with a total amount outstanding of $19,639,303. The Letter of Credit supporting the Series M Refinancing Loan expires in October 2010 and the other two Letters of Credit expire in October 2012.

The Medical Center has a liquidity covenant which requires minimum liquidity of $50,000,000 be maintained in certain board designated accounts as security for the Letters of Credit.
The Medical Center has escrowed the following funds with bond trustees under the Series B (2008) Revenue Bonds, the Series A Revenue Bonds, the ECMF Series A Bonds, PARS and Series M Pool loans. In addition, these amounts include funds for the self-insured workers’ compensation program and designated by management for pension and other employee benefit purposes. These funds are included in assets limited as to use in the financial statements.

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction fund</td>
<td>$194,693</td>
<td>$283</td>
</tr>
<tr>
<td>Debt service fund</td>
<td>21,871</td>
<td>4,001</td>
</tr>
<tr>
<td>Debt service reserve funds</td>
<td>34,480</td>
<td>13,890</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>180</td>
<td>245</td>
</tr>
<tr>
<td>Workers compensation reserve funds</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Other held funds</td>
<td>364</td>
<td>337</td>
</tr>
<tr>
<td></td>
<td>$256,588</td>
<td>$23,756</td>
</tr>
</tbody>
</table>

The assets of the funds held by the trustees are invested principally in government securities and money market funds.

Maturities of long-term debt are as follows:

<table>
<thead>
<tr>
<th>(in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years Ending September 30,</td>
</tr>
<tr>
<td>2009</td>
</tr>
<tr>
<td>2010</td>
</tr>
<tr>
<td>2011</td>
</tr>
<tr>
<td>2012</td>
</tr>
<tr>
<td>2013</td>
</tr>
<tr>
<td>Thereafter</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

The Medical Center maintains a line of credit for short-term borrowings with a bank under which up to $25,000,000 may be borrowed on such terms as the Medical Center and bank may mutually agree. This agreement is renewed annually but can be withdrawn at the bank’s option. At September 30, 2008 and 2007, no amounts were outstanding on this line.
7. **Obligations Under Capital Leases**

Obligations under capital leases consist of the following at September 30:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Boston</td>
<td>$90,458</td>
<td>$97,885</td>
</tr>
<tr>
<td>Fleet - 5 year (2003)</td>
<td>$541</td>
<td>$541</td>
</tr>
<tr>
<td></td>
<td>$90,999</td>
<td>$98,426</td>
</tr>
<tr>
<td>Less current portion</td>
<td>(7,825)</td>
<td>(7,967)</td>
</tr>
<tr>
<td></td>
<td>$83,174</td>
<td>$80,459</td>
</tr>
</tbody>
</table>

Effective with the merger on July 1, 1996, the Medical Center entered into a 50-year capital lease with the Public Health Commission (PHC), a division of the City of Boston, for all the real property previously owned by BCH. The lease payments for the first 25 years are equal to the debt service payments required on the City of Boston Revenue Refunding Bonds, Boston City Hospital (FHA insured mortgage) Series B (the "1993 Bonds"). The lease payments for the second 25 years will be determined at that time based upon several factors. In conjunction with the lease execution, the City of Boston agreed to provide the Medical Center with Base Assistance Grant payments (Note 10) which are expected to equal the Medical Center's payments on the first 25 years of the lease. The lease payments during the first 25 years are only required if the Medical Center receives the Base Assistance Grant payments from the City of Boston. The interest rate on the lease was 6.2%.

On August 13, 2002, the City of Boston refinanced the 1993 Bonds, through the issuance of the City's Special Obligation Refunding Bonds, Boston City Hospital Issue (the "2002 Bonds"). In conjunction with the refinancing, the Medical Center and PHC terminated the previous lease agreement and executed a new agreement. The execution of the new capital lease resulted in a net increase to the existing capital lease asset and obligation of approximately $26,500,000. No gain or loss was recorded on the termination of the previous lease agreement. The new lease agreement had an initial term of fifty years (equal to the life of the 2002 Bonds), requires payments equal to the debt service on the 2002 bonds and has an interest rate of 4.1%. The lease agreement also contains a provision for four ten-year renewal terms at the option of the Medical Center. In connection with the execution of the new lease agreement, the Base Assistance Grant Payments received from the City of Boston were also revised (Note 10). The new lease agreement only requires payments under the initial lease term if the Medical Center receives the Base Assistance Grant payments from the City of Boston.

Once the 2002 Bonds are retired, the rent payments will reflect fair market value, taking into account, among other factors, restrictions in the lease agreement and any investments the Medical Center has made.

On February 13, 2003, the Medical Center entered into a capital lease with Fleet Capital Leasing Healthcare Finance, through the Authority, in the amount of $10,030,227. Two escrow funds were created in equal amounts, one for three-year assets and one for five-year assets. Principal payments were made semiannually through 2008 and range from $512,944 to $1,374,021. Interest is payable at 3.01% and 3.59%, for the three-year assets and the five-year assets, respectively. The Medical Center granted, under the terms of each respective Master Lease, a collateral interest in the equipment leased. The last payment for the three-year lease was made on February 13, 2008 and the last payment for the five-year lease was made on February 13, 2008.
As of September 30, 2008 and 2007, assets under capital lease agreements amounted to $218,806,000 for both years with accumulated amortization of $129,544,049 and $120,114,149, respectively. Amortization expense is included with depreciation expense in the statement of operations. Future minimum payments of the Medical Center's obligations under capital leases are as follows:

(in thousands)

<table>
<thead>
<tr>
<th>Year Ending September 30</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$11,500</td>
</tr>
<tr>
<td>2010</td>
<td>11,484</td>
</tr>
<tr>
<td>2011</td>
<td>11,475</td>
</tr>
<tr>
<td>2012</td>
<td>11,486</td>
</tr>
<tr>
<td>2013</td>
<td>11,399</td>
</tr>
<tr>
<td>Thereafter</td>
<td>52,950</td>
</tr>
<tr>
<td><strong>Total minimum lease payments</strong></td>
<td><strong>110,294</strong></td>
</tr>
</tbody>
</table>

Less amount representing interest  
Present value of minimum lease payments  
Less current portion  

**$ 82,633**

8. **Restricted Net Assets**

Restricted net assets which are recorded in assets limited to use, grants receivable and other accounts receivable on the balance sheet are composed of the following at September 30:

(in thousands)  

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Temporarily restricted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated realized and unrealized gains</td>
<td>$153,022</td>
<td>$206,847</td>
</tr>
<tr>
<td>City of Boston Grants (Note 10)</td>
<td>86,634</td>
<td>93,640</td>
</tr>
<tr>
<td>Funds for the purchase of equipment and capital improvements</td>
<td>164,499</td>
<td>204,109</td>
</tr>
<tr>
<td>Other restricted purposes</td>
<td>41,360</td>
<td>36,538</td>
</tr>
<tr>
<td><strong>$ 445,515</strong></td>
<td><strong>$ 541,134</strong></td>
<td></td>
</tr>
</tbody>
</table>

Permanently restricted  
Investments to be held in perpetuity  

**$ 16,353**  

**$ 16,353**

9. **Third-Party Reimbursement**

The Medical Center maintains agreements with Blue Cross of Massachusetts, Inc., the Social Security Administration under the Medicare Program, the Commonwealth under the Medicaid Program and certain managed care entities that govern payment to the Medical Center for services rendered to patients covered by these programs.
Medicare
Reimbursement for services provided to inpatients and outpatients covered by the federal government's Medicare program who have elected not to enter a Medicare health maintenance organization for services varies according to patient classification systems that are based on clinical, diagnostic, and other factors.

Medicaid
The Commonwealth's Division of Medical Assistance utilizes a prospective payment system for acute hospital services provided to Medicaid beneficiaries. Medicaid pays the Medical Center a fixed amount per discharge for inpatient services, prospectively determined flat rates based on diagnoses and procedures performed for most outpatient services, and fixed fees for certain other outpatient services.

Uncompensated Care
The Medical Center is partially reimbursed for uncompensated care services, defined as charity care and bad debt associated with emergency services, through the statewide uncompensated care pool (UCCP), administered by the Commonwealth. Following the merger of BUMCH and BCH on July 1, 1996, the Medical Center has continued the historical mission and commitment of BCH to the public health needs of all residents of the City of Boston to provide accessible health care services to all in need of care, regardless of status or ability to pay. As a result, the Medical Center receives a significant amount of its reimbursement from the UCCP. Changes in the level of funding of the UCCP or in the regulations governing its administration may have an adverse impact on the Medical Center.

10. Grant Payments

In connection with the establishment of the Medical Center, the City of Boston agreed to provide Base Assistance Grant payments to capitalize the Medical Center and to promote the development of an urban healthcare system in the City of Boston. Funding is subject to annual appropriation by the City each fiscal year after July 1, 1996 for as long as the FHA insured mortgage (Note 7) is outstanding. The Base Assistance Grant payments were $10,750,000 in both 2008 and 2007. For each year as long as the FHA note is outstanding, the payment is expected to be $10,750,000. As discussed in Note 7, the Base Assistance Grant payments were amended in connection with the termination and subsequent new lease agreement with PHC on August 13, 2002.

The Base Assistance Grant payments have been discounted using a rate of 2.69%, to a net present value of $86,634,000 and $93,640,000 as of September 30, 2008 and 2007, respectively. These amounts are included in grants receivable and temporarily restricted net assets on the balance sheet at September 30, 2008 and 2007. The accretion of the discount on these grants of approximately $3,744,000 and $4,015,000 for the years ended September 30, 2008 and 2007, respectively, is included in contribution revenue of temporarily restricted net assets in the statement of changes in net assets. The receipt of these payments from the City each year are recorded as temporarily restricted net assets that are then released from restrictions for operations.
11. Benefit Plans Available to Employees

The Medical Center has a Tax Sheltered Annuity Plan (TSA) which is a noncontributory deferred compensation plan. Participation in the TSA Plan is voluntary. The Medical Center also has a contributory 403(b) plan. The Medical Center's contributions under this plan amounted to $12,144,904 and $10,935,004 for the years ended September 30, 2008 and 2007, respectively.

Certain retired Medical Center employees have postretirement medical and life insurance benefits covered under the Welfare Benefits Plan (the Plan). The Plan was frozen effective with the merger on July 1, 1996. Current employees and employees retiring after July 1, 1996 are not covered by the Plan. The accrued benefit cost amounted to $316,668 and $406,725 as of September 30, 2008 and 2007, respectively. The net periodic benefit cost recorded on the Plan amounted to $(18,632) and $(20,280) for the years ended September 30, 2008 and 2007, respectively.

In September 2006, the FASB issued No. 158, Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans. SFAS 158 focuses primarily on the balance sheet reporting for the funded plans and benefit assets for overfunded plans, with offsetting impacts to unrestricted net assets. The impact of the adoption of SFAS 158 for the Plan resulted in a net decrease of $397,145 in unrestricted net assets, which has been recorded as an adoption of an accounting principle as of September 30, 2007. The net decrease is comprised of an actuarial loss of $397,145 as of September 30, 2007.

The Medical Center maintains a defined benefit pension plan (the "Pension Plan"), effective July 1, 1996, for certain former employees of BCH with a measurement date of June 30. The covered group consists of employees who either had a nonforfeitable right to a retirement benefit under the former BCH defined benefit pension plan or would have earned one with service through September 30, 1997. The Pension Plan provides benefits based on an employee's average compensation and years of service reduced by a percentage of their Social Security benefit. The Pension Plan's provisions have been set based on a collective bargaining agreement effective July 1, 1996, and a formal document was signed on June 30, 1997. Contributions to the Plan are made in amounts sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974. The City is responsible for the past service cost of former BCH employees.
Pension Plan benefits as of and for the years ended September 30, 2008 and 2007 with a measurement date of June 30 are as follows:

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated benefit obligation</td>
<td>$54,320</td>
<td>$49,132</td>
</tr>
<tr>
<td>Change in projected benefit obligation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projected benefit obligation at beginning of year</td>
<td>$57,133</td>
<td>$51,260</td>
</tr>
<tr>
<td>Service cost</td>
<td>4,611</td>
<td>4,578</td>
</tr>
<tr>
<td>Interest cost</td>
<td>3,600</td>
<td>3,113</td>
</tr>
<tr>
<td>Actuarial loss (gain)</td>
<td>(1,621)</td>
<td>(1,445)</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(508)</td>
<td>(339)</td>
</tr>
<tr>
<td>Administrative expense</td>
<td>(36)</td>
<td>(34)</td>
</tr>
<tr>
<td>Projected benefit obligation at end of year</td>
<td>$63,179</td>
<td>$57,133</td>
</tr>
<tr>
<td>Change in plan assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value of plan assets at beginning of year</td>
<td>$49,016</td>
<td>$39,757</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>(2,685)</td>
<td>6,482</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>5,061</td>
<td>3,150</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(508)</td>
<td>(339)</td>
</tr>
<tr>
<td>Administrative expense</td>
<td>(36)</td>
<td>(34)</td>
</tr>
<tr>
<td>Fair value of plan assets at end of year</td>
<td>$50,848</td>
<td>$49,016</td>
</tr>
<tr>
<td>Reconciliation of funded status</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projected benefit obligation</td>
<td>$63,179</td>
<td>$57,133</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>50,848</td>
<td>49,016</td>
</tr>
<tr>
<td>Funded status</td>
<td>(12,331)</td>
<td>(8,117)</td>
</tr>
<tr>
<td>Contributions after measurement date</td>
<td>1,262</td>
<td>1,275</td>
</tr>
<tr>
<td>Accrued benefit liability</td>
<td>$(11,069)</td>
<td>$(6,842)</td>
</tr>
<tr>
<td>Weighted average assumptions as of September 30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discount rate</td>
<td>6.50%</td>
<td>6.25%</td>
</tr>
<tr>
<td>Compensation increase rate</td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
</tbody>
</table>

The impact of the adoption of SFAS 158 resulted in a net decrease of $2,937,031 in unrestricted net assets, which has been recorded as an adoption of an accounting principle for the year ended September 30, 2007. The net decrease is comprised of the net prior service cost of $9,570 and actuarial loss of $2,927,461 for the year ended September 30, 2007.

SFAS 158 requires companies to measure benefit plan assets and liabilities and determine the discount rate for subsequent year expense recognition as of the balance sheet date for financial reporting purposes, thus eliminating the opportunity to use a measurement date up to 90 days prior to the balance sheet date. The effective date for this change is 2009. The Medical Center currently uses a June 30 measurement date and will adopt a September 30 measurement date in 2009 as required. Converting to the new measurement date will require a one-time adjustment to unrestricted net assets per the transition guidance in SFAS 158. If the Medical Center had adopted a September 30 measurement date for the year ended September 30, 2008, the estimated effect...
for the retirement plans and other postretirement benefits would have been a decrease to
unrestricted net assets of approximately $1,300,000 and a corresponding increase to the pension
and postretirement benefit liabilities.

The components of net periodic benefit cost for the years ended September 30, 2008 and 2007 are
as follows:

\[
\begin{array}{lrr}
& \text{2008} & \text{2007} \\
\text{Service cost} & $4,611 & $4,578 \\
\text{Interest cost} & 3,600 & 3,113 \\
\text{Expected return on plan assets} & (3,603) & (2,866) \\
\text{Amortization of prior service cost} & 1 & 1 \\
\text{Recognized actuarial loss} & - & 387 \\
\hline
\text{Net periodic benefit cost} & $4,609 & $5,213 \\
\end{array}
\]

Weighted average assumptions used to determine the
net periodic cost for the period just ended
Discount rate 6.25% 6.00%
Long-term rate of return 7.00% 7.00%
Compensation increase rate 5.00% 5.00%

Other changes in plan assets and benefit
obligations recognized in unrestricted net assets
SFAS 158 change in accounting principle $ - $ (2,937)
New net actuarial loss 4,667 -
Amortization of prior service cost (1) -
$4,666 $ (2,937)

Amounts recognized in unrestricted net assets
Net prior service cost $8 $10
Net actuarial loss 7,594 2,927

The incremental effect of applying SFAS 158 on individual items in the statement of financial
position as of September 30, 2007 is as follows:

\[
\begin{array}{lrrrr}
& \text{Before} & \text{Defined} & \text{After} \\
& \text{Application} & \text{Benefit Plan} & \text{Application} \\
& \text{of FAS 158} & \text{Adjustments} & \text{of SFAS 158} \\
\text{Accounts payable and accrued expenses} & $120,812 & $2,937 & $123,749 \\
\text{Total liabilities} & 497,000 & 2,937 & 499,937 \\
\text{Unrestricted net assets} & 472,794 & (2,937) & 469,857 \\
\text{Total net assets} & 1,030,281 & (2,937) & 1,027,344 \\
\end{array}
\]

The amounts expected to be recognized as amortization of prior net service cost and amortization
of net loss, respectively, and as components of net periodic cost in the upcoming year are $1,327
and $138,335.
Pension Plan Assets
The pension plan weighted average asset allocation as of the measurement dates June 30, 2008 and 2007, respectively, is as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Securities</td>
<td>46% - 56%</td>
<td>61%</td>
<td>62%</td>
</tr>
<tr>
<td>Debt Securities</td>
<td>26% - 46%</td>
<td>38%</td>
<td>35%</td>
</tr>
<tr>
<td>Other</td>
<td>0 - 20%</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

The expected long-term rate of return assumption represents the expected average rate of earnings on the funds invested or to be invested to provide for the benefits included in the benefit obligations. The long-term rate of return assumption is determined based on a number of factors, including historical market index, returns, the anticipated long-term asset allocation of the plans, historical plan return data, plan expenses, and the potential to outperform market index returns.

Subsequent to September 30, 2008 and June 30, 2008 (measurement date), there has been significant volatility and illiquidity in the U.S. and global financial markets which has had a significant negative effect on the valuation of plan assets. However, the Medical Center has been able to meet the obligations of the plans with existing plan assets or any additional contributions as may be required under federal pension regulations.

Cash Flows
Information about the expected cash flows for the Pension Plan is as follows:

Expected contributions for fiscal year ending September 30, 2009
Expected employer contributions $ 3,397,788

Estimated future benefit payments reflecting expected future service for the fiscal year(s) ending September 30

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>837,835</td>
</tr>
<tr>
<td>2010</td>
<td>1,162,128</td>
</tr>
<tr>
<td>2011</td>
<td>1,587,274</td>
</tr>
<tr>
<td>2012</td>
<td>2,001,019</td>
</tr>
<tr>
<td>2013</td>
<td>2,482,700</td>
</tr>
<tr>
<td>2014-2018</td>
<td>23,028,171</td>
</tr>
</tbody>
</table>

12. Disclosures About Fair Value of Financial Instruments
Statement of Financial Accounting Standards No. 107, Disclosure About Fair Value of Financial Instruments, requires that the Medical Center disclose estimated fair values for its financial instruments, both assets and liabilities recognized and not recognized in the balance sheet for which it is practicable to estimate fair value. The Medical Center's financial instruments consist principally of cash and investment securities, accounts and notes receivable, and accounts payable for which carrying amounts approximate fair value.
The fair value of long-term debt was approximately $386,002,926 and $181,428,554 at September 30, 2008 and 2007, respectively.

13. Concentration of Credit Risk

The Medical Center provides health care services to residents within its geographic location. The Medical Center grants credit without collateral to its patients, most of whom are local residents and are either insured under third-party payor agreements or covered by the uncompensated care pool.

The mix of receivables from patients and third-party payors at September 30, 2008 and 2007 was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare</td>
<td>14 %</td>
<td>15 %</td>
</tr>
<tr>
<td>Medicaid</td>
<td>24</td>
<td>27</td>
</tr>
<tr>
<td>HMOs</td>
<td>23</td>
<td>22</td>
</tr>
<tr>
<td>Commercial</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>Blue Cross</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Commonwealth Care</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Self-Pay</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100 %</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

14. Related Party Transactions

The Foundation and the Medical Center have significant transactions with each other for operating purposes. During the years ended September 30, 2008 and 2007, the Medical Center provided funding of approximately $98,651,000 and $68,644,000, respectively, to the Foundation for professional and support services. The Foundation is comprised of physician groups which provide teaching and other services to the Medical Center. In addition, the Medical Center and the Foundation have certain board members in common. The Medical Center has various notes receivable and other receivables from the Foundation which totaled approximately $16,361,000 and $14,610,000 at September 30, 2008 and 2007, respectively.

BMCHP and the Medical Center have significant transactions with each other for operating purposes. Total revenue earned by the Medical Center from BMCHP related to medical services provided by the Medical Center to BMCHP members was $88,862,000 and $75,896,000 for the years ended September 30, 2008 and 2007, respectively, and is included in net patient service revenue. At September 30, 2008, the Medical Center owed BMCHP $42,136,000 and at September 30, 2007, the Medical Center owed BMCHP $7,184,000. In addition, BMCHP owed the Medical Center $10,279,000 and $7,985,000 at September 30, 2008 and 2007, respectively, and is included in patient accounts receivable.

The Medical Center and BMCIC have significant transactions with each other for the purpose of providing professional and general liability insurance. Total expenses incurred by the Medical Center related to the insurance provided by BMCIC was $15,216,697 and $8,693,916 for the years ending September 30, 2008 and 2007, respectively. The Medical Center has $14,314,796 and $8,223,852 of prepaid premiums and retrospective premium credits that were prepaid by the
Boston Medical Center
(Parent company only)
Notes to Financial Statements
September 30, 2008 and 2007

Medical Center to BMCIC at September 30, 2008 and 2007, respectively. In addition, the Medical Center has a liability to BMCIC of $7,032,644 representing the actuarial loss in BMCIC as of September 30, 2008.

The Medical Center and BMCIC of Vermont have transactions with each other for the purpose of providing insurance coverage for property and for certain liability exposures arising from acts of terrorism under TRIA. All insurance written and claims paid originate with the Medical Center. There were no expenses incurred by the Medical Center related to the insurance provided by BMCIC of Vermont for the years ending September 30, 2008 and 2007, respectively. At September 30, 2007 there were no premiums owed to BMCIC of Vermont as all premiums written were paid prior to year-end.

The Medical Center is affiliated with several community health centers. At September 30, 2008 and 2007, the Medical Center had loaned a total of $931,000 and $1,813,000, respectively, to the community health centers. The loans are interest bearing and are forgiven as long as no event of default as defined in the loan documents shall have occurred.

15. Functional Expenses

The total operating expenses of the Medical Center by function are as follows for the year ended September 30:

\[
\begin{array}{lcc}
\text{(in thousands)} & 2008 & 2007 \\
\hline
\text{Patient care} & $703,401 & $645,353 \\
\text{Medical education} & 69,869 & 59,715 \\
\text{Research, sponsored programs and community health services} & 86,824 & 85,342 \\
\text{General and administrative} & 148,486 & 119,590 \\
\hline
& $1,008,580 & $910,000 \\
\end{array}
\]

16. Governmental Subsidies

The Medical Center and BMCHP receive various subsidies from the Commonwealth to provide financial support for the critical safety net role that Boston Medical Center plays in the Massachusetts healthcare system. Prior to fiscal 2006 some of these funds were provided through an Intergovernmental Transfer (IGT) of available public municipal funding and matching funds from federal reimbursement administered by the Division of Medical Assistance (DMA).

As stipulated by Chapter 58 of the Acts of 2006 (the Massachusetts health care reform act) and incorporated into MassHealth 1115 waiver extension process, effective July 1, 2006 payments received by Medicaid managed care organizations (MMCOs) operated through the Boston Public Health Commission, and the Cambridge Public Health Commission, Boston Medical Center and Cambridge Hospital, were replaced by Section 122 Payments.

These payments unlike the former MMCO intergovernmental transfer payments are funded directly by the Executive Office of Health and Human Services (EOHHS) to Boston Medical Center (one of the two disproportionate share hospitals). This change eliminated the need for the funding transfer between BMCHP and the Medical Center for Public Expenditure payments. Section 122 payments
are scheduled to end by June 2009. Payments are scheduled as $133,333,000; $120,000,000; and $106,666,667 for the years 2007, 2008, and 2009, respectively.

Section 122 Supplemental Payments
The Executive Office agreed to fund two supplemental payments to the Medical Center and BMCHP in 2008. A payment of $120,000,000 was allocated from the Commonwealth Care Trust Fund and a new additional payment of $64,000,000 was allocated in lieu of increasing actuarially sound rates at the Health Plan. As of September 30, 2008, the Medical Center has received all of the funds related to the $120,000,000. However, the Medical Center has not received any of the $64,000,000 as of September 30, 2008. With assurances from the Commonwealth that they intend to honor this obligation, the Medical Center has recorded a receivable of $64,000,000 for the year ended September 30, 2008.

Safety Net Care Pool DSH Supplemental Payments
During fiscal year 2008 the Medical Center received $40,000,000 for additional supplemental payments related to fiscal 2007. The Medical Center also received $64,000,000 in supplemental payments related to 2008. By the end of 2008, The Commonwealth of Massachusetts and the Centers for Medicare and Medicaid Services (CMS) have come to an agreement in principle on a new three year extension of the Medicaid waiver. As part of this agreement the federal government has lifted its deferral on matching funds for the Medical Center’s safety net care pool DSH supplemental payments.

17. Commitments and Contingencies
The Medical Center is subject to complaints, claims and litigation which have arisen in the normal course of business. In addition, the Medical Center is subject to compliance with laws and regulations of various governmental agencies. Recently, governmental review of compliance with these laws and regulations has increased, resulting in fines and penalties for noncompliance by individual health care providers.

18. Self-Insurance

Professional and General Liability
Estimated professional and general liability costs, as calculated by BMCIC's consulting actuaries, consist of specific reserves to cover the estimated liability resulting from medical or general liability incidents or potential claims which have been reported, as well as a provision for claims incurred but not reported. Estimated professional and general liabilities are based on claims reported, historical experience, and industry trends. These liabilities include estimates of future trends in loss severity and frequency and other factors that could vary as the claims are ultimately resolved. Although it is not possible to measure the degree of variability inherent in such estimates, management believes the reserves for claims are adequate. These estimates are periodically reviewed, and necessary adjustments are reflected in the consolidated statement of operations in the year the need for such adjustments becomes known. Management is unaware of any claims that would cause the final expense for professional and general liability risks to vary materially from the amounts provided.

Excess Liability Coverage
The Medical Center has excess liability coverage of $30,000,000 for professional and general liability losses per individual claim, and for annual aggregate professional and general liability losses on a claims-made basis. The existence of this reinsurance coverage does not relieve the
Medical Center of its primary obligation with respect to losses incurred. The Medical Center would be liable for claims ceded to reinsurers in the event such reinsurers are unable to meet their obligations.

19. National Emerging Infectious Diseases Laboratory

In September 2003, Boston University received an award from the National Institutes of Health (NIH) for the construction of a biocontainment facility to be located on Boston University's Medical Campus. This laboratory will be used by the University and the Medical Center, as well as other organizations, to support the federal government's bio-defense efforts. As part of this award, NIH will provide $141,021,000 of the construction costs of the facility. Boston University and Boston Medical Center will each provide $28,241,000 toward construction, and will each receive a 50% equity interest in the venture. As such, both parties will share equally in the future operating activities of the laboratory. The Medical Center's 50% equity interest associated with amounts reimbursed by NIH has been recorded as an investment in other noncurrent assets of $61,126,052 and $34,276,370 at September 30, 2008 and 2007, respectively. The NIH reimbursement has been recorded as an increase to temporarily restricted net assets that will be released from restriction when the project is placed in service. In addition the Medical Center has funded $21,689,355 for capital expenditures associated with the project.

20. Asset Retirement Obligation

In March 2005, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 47, Accounting for Conditional Asset Retirement Obligations. The Medical Center implemented FIN No. 47 at September 30, 2006 and recorded conditional asset retirement obligations of $14,641,691. These conditional asset retirement obligations are related to certain materials requiring specific remediation efforts. Upon implementation of FIN No. 47, the Medical Center recorded an $11,855,942 reduction in unrestricted net assets which was recorded as a cumulative effect of a change in accounting principle, as well as an increase to assets of $2,785,749. In November 2007, the Medical Center purchased 660 Harrison Ave., the Gambro Building, and recorded a conditional asset retirement obligation of $1,673,513, as well as an increase to assets of $1,673,513 for the year ended September 30, 2008. The Medical Center recognized operating expenses relating to the accretion of liabilities and depreciation of fixed assets of $949,062 and $844,745 at September 30, 2008 and 2007, respectively.

21. Subsequent Events

In November and December 2008, the Medical Center closed on a second and third round of New Markets Tax Credit financing for the construction of the Shapiro Ambulatory Care Center. The Medical Center was the beneficiary of an allocation of federal new markets tax credits in the amounts of $46,700,000 and $24,000,000, respectively. In these two transactions, the Medical Center provided loans of $33,582,465 and $19,516,600 with the capital contribution of $14,715,033 and $4,483,400 provided by a third party. These funds also became equity investment in the CDEs, which will be loaned to the BMC NAB Business Trust. The proceeds of the new market tax credit loans and the loans provided by the Medical Center will be controlled by the BMC NAB Business Trust for the purpose of constructing the facility.