

**The Brigham and Women's
Hospital, Inc.**
Financial Statements
September 30, 2009 and 2008

The Brigham and Women's Hospital, Inc.

Index

September 30, 2009 and 2008

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Report of Independent Auditors

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

In our opinion, the accompanying balance sheets and the related statements of operations, changes in net assets and cash flows present fairly, in all material respects, the financial position of The Brigham and Women's Hospital, Inc. at September 30, 2009 and 2008, and the results of its operations, its changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of The Brigham and Women's Hospital, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



December 11, 2009

The Brigham and Women's Hospital, Inc.
Balance Sheets
September 30, 2009 and 2008

<i>(dollars in thousands)</i>	2009	2008
Assets		
Current assets		
Cash and equivalents	\$ 156,817	\$ 34,125
Current portion of investments limited as to use	72,997	76,041
Patient accounts receivable, net of allowance for bad debts 2009 - \$15,082; 2008 - \$10,960	203,011	199,357
Research grants receivable	48,626	59,936
Other current assets	75,290	70,735
Receivable for settlements with third-party payers	332	1,341
Total current assets	<u>557,073</u>	<u>441,535</u>
Investments limited as to use, less current portion	16,589	16,622
Long-term investments	125,820	123,737
Pledges receivable, net and contributions receivable from trusts, less current portion	39,664	69,459
Property and equipment, net	984,738	964,321
Other assets	1,481	93,566
Total assets	<u>\$ 1,725,365</u>	<u>\$ 1,709,240</u>
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term obligations	\$ 25,711	\$ 22,869
Accounts payable and accrued expenses	69,592	58,198
Accrued compensation and benefits	101,686	97,949
Current portion of accrual for settlements with third-party payers	8,242	9,572
Unexpended funds on research grants	63,925	69,670
Due to affiliates	69,957	14,755
Total current liabilities	<u>339,113</u>	<u>273,013</u>
Other liabilities		
Accrual for settlements with third-party payers, less current portion	18,377	11,109
Accrued professional liability	13,675	13,270
Accrued employee benefits	238,783	18,718
Accrued other	2,051	2,112
	<u>272,886</u>	<u>45,209</u>
Long-term obligations, less current portion	<u>618,064</u>	<u>583,080</u>
Total liabilities	<u>1,230,063</u>	<u>901,302</u>
Commitments and contingencies		
Net assets		
Unrestricted	305,450	587,257
Temporarily restricted	143,036	170,906
Permanently restricted	46,816	49,775
Total net assets	<u>495,302</u>	<u>807,938</u>
Total liabilities and net assets	<u>\$ 1,725,365</u>	<u>\$ 1,709,240</u>

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

The Brigham and Women's Hospital, Inc.
Statements of Operations
Years Ended September 30, 2009 and 2008

<i>(dollars in thousands)</i>	2009	2008
Operating revenue		
Net patient service revenue	\$ 1,522,574	\$ 1,390,362
Direct academic and research revenue	391,439	352,797
Indirect academic and research revenue	113,014	108,448
Other revenue	<u>38,044</u>	<u>37,970</u>
Total operating revenue	<u>2,065,071</u>	<u>1,889,577</u>
Operating expenses		
Employee compensation and benefits	758,994	709,913
Supplies and other expenses	662,935	607,581
Direct academic and research expenses	391,439	352,797
Depreciation and amortization	101,407	85,896
Provision for bad debts	18,877	14,419
Interest	<u>26,479</u>	<u>20,835</u>
Total operating expenses	<u>1,960,131</u>	<u>1,791,441</u>
Income from operations	<u>104,940</u>	<u>98,136</u>
Nonoperating gains (expenses)		
Income (loss) from investments	1,084	(1,446)
Gifts and other	<u>(524)</u>	<u>(969)</u>
Total nonoperating gains (expenses), net	<u>560</u>	<u>(2,415)</u>
Excess of revenues over expenses	105,500	95,721
Other changes in net assets		
Funds utilized for property and equipment	15,652	34,850
Transfers to affiliates, net	(90,675)	(40,521)
Other	(36)	36
Change in funded status of defined benefit plans	(284,026)	8,504
Cumulative effect of change in defined benefit plans measurement date	<u>(28,222)</u>	<u>-</u>
(Decrease) increase in unrestricted net assets	<u>\$ (281,807)</u>	<u>\$ 98,590</u>

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

The Brigham and Women's Hospital, Inc.
Statements of Changes in Net Assets
Years Ended September 30, 2009 and 2008

<i>(dollars in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at October 1, 2007	\$ 488,667	\$ 199,755	\$ 38,643	\$ 727,065
Increases (decreases)				
Income from operations	98,136	-	-	98,136
Loss from investments	(1,446)	(23,499)	-	(24,945)
Gifts and other	(969)	20,159	12,090	31,280
Funds utilized for property and equipment	34,850	(26,467)	-	8,383
Transfers to affiliates, net	(40,521)	-	-	(40,521)
Other	36	958	(958)	36
Change in funded status of defined benefit plans	8,504	-	-	8,504
Change in net assets	<u>98,590</u>	<u>(28,849)</u>	<u>11,132</u>	<u>80,873</u>
Net assets at September 30, 2008	<u>587,257</u>	<u>170,906</u>	<u>49,775</u>	<u>807,938</u>
Increases (decreases)				
Income from operations	104,940	-	-	104,940
Income (loss) from investments	1,084	(4,083)	7	(2,992)
Gifts and other	(524)	(31,319)	4,374	(27,469)
Funds utilized for property and equipment	15,652	-	-	15,652
Transfers to affiliates, net	(90,675)	-	-	(90,675)
Other	(36)	7,532	(7,340)	156
Change in funded status of defined benefit plans	(284,026)	-	-	(284,026)
Cumulative effect of change in defined benefit plans measurement date	(28,222)	-	-	(28,222)
Change in net assets	<u>(281,807)</u>	<u>(27,870)</u>	<u>(2,959)</u>	<u>(312,636)</u>
Net assets at September 30, 2009	<u>\$ 305,450</u>	<u>\$ 143,036</u>	<u>\$ 46,816</u>	<u>\$ 495,302</u>

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

The Brigham and Women's Hospital, Inc.
Statements of Cash Flows
Years Ended September 30, 2009 and 2008

<i>(dollars in thousands)</i>	2009	2008
Cash flows from operating activities		
Change in net assets	\$ (312,636)	\$ 80,873
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Cumulative effect of change in defined benefit plans measurement date	28,222	-
Change in funded status of defined benefit plans	284,026	(8,504)
Depreciation and amortization	101,407	85,896
Provision for bad debts	18,877	14,419
Loss on retirement of property	498	954
Net realized and change in unrealized appreciation on investments	(163)	23,826
Transfers to affiliates, net	90,675	40,521
Restricted contributions	(26,894)	(27,737)
Increase (decrease) in cash resulting from a change in		
Patient accounts receivable	(22,531)	(42,459)
Research grants receivable	11,310	(3,957)
Other current assets	(7,730)	(9,040)
Pledges receivable and contributions receivable from trusts	32,970	(23,345)
Other assets	(785)	(428)
Accounts payable and accrued expenses	11,394	10,678
Accrued compensation and benefits	3,737	16,114
Settlements with third-party payers	6,947	5,147
Unexpended funds on research grants	(5,745)	6,902
Accrued employee benefits and other	477	(609)
Due to affiliates	55,756	(25,104)
Net cash provided by operating activities	<u>269,812</u>	<u>144,147</u>
Cash flows from investing activities		
Purchase of property and equipment	(122,322)	(262,291)
Purchase of investments	(49,059)	(18,410)
Proceeds from sales of investments	50,216	20,525
Net cash used for investing activities	<u>(121,165)</u>	<u>(260,176)</u>
Cash flows from financing activities		
Payments on long-term obligations	(18,472)	(16,364)
Proceeds from long-term obligations	56,298	116,617
Transfers to affiliates, net	(90,675)	(40,521)
Restricted contributions	26,894	27,737
Net cash (used for) provided by financing activities	<u>(25,955)</u>	<u>87,469</u>
Net increase (decrease) in cash and equivalents	122,692	(28,560)
Cash and equivalents at beginning of year	34,125	62,685
Cash and equivalents at end of year	<u>\$ 156,817</u>	<u>\$ 34,125</u>

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

The Brigham and Women's Hospital, Inc.

Notes to Financial Statements

September 30, 2009 and 2008

(dollars in thousands)

1. Organization and Community Benefit Commitments

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

Partners HealthCare System, Inc. (PHS) is the sole member of BW/F, The Massachusetts General Hospital (MGH), NSMC HealthCare, Inc., Newton-Wellesley Health Care System, Inc., Partners Continuing Care, Inc., and Partners International Medical Services, LLC. PHS appoints the two physicians who are members of Partners Community HealthCare, Inc. The individual serving as the PHS Chief Operating Officer is the sole member of Partners Harvard Medical International, Inc. PHS, together with all of its affiliates, is referred to as "Partners HealthCare."

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

Community Benefit

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

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

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

The Brigham and Women's Hospital, Inc.

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Uncompensated Care

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

State Programs

Uncompensated Care

Free care services are partially reimbursed to acute hospitals through the statewide Health Safety Net (HSN, formerly known as the Uncompensated Care Pool) established by the Massachusetts Health Care Reform Law (Chapter 58 of the Acts of 2006). A portion of the funding for HSN is paid by hospitals through a statewide hospital assessment levied each year by the Massachusetts Legislature. All acute care hospitals in the state are assessed their share of this total statewide hospital assessment amount (\$180,000 in 2009 and \$160,000 in 2008) based on each hospital's charges for private sector payers. BWH reports this assessment as a deduction from net patient service revenue.

Hospitals are reimbursed for free care based on claims for eligible patients that are submitted to, and adjudicated by the HSN. Rates of payments are based on Medicare rates and payment policies. Hospitals with a high proportion of free care and government funding receive more favorable reimbursement. In aggregate, BWH's share of uncompensated care funding covered 78% of the estimated cost of free care provided in 2009 and 2008, excluding the assessment.

Medicaid

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

Medicaid payments to BWH do not cover the cost of services provided. In aggregate, reimbursement from Medicaid covered 78% of the estimated cost of services provided in 2009 and 80% of the estimated cost in 2008.

Federal Program

Medicare

Medicare is a federally sponsored health insurance program for people age 65 or older, under age 65 with certain disabilities, and any age with End-Stage Renal Disease. For many years, Medicare payments have not kept pace with increases in the cost of care provided for many hospitals. Additionally, payments to physicians have seen little or no increases over the past several years. Compounding this shortfall in payments is the shift of care from higher paying inpatient services to lower paying outpatient services.

Consequently, Medicare payments to BWH also do not cover the cost of services provided. In aggregate, reimbursement from Medicare covered 78% of the estimated cost of services provided in 2009 and 81% of the estimated cost in 2008.

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(dollars in thousands)

For free care, Medicaid and Medicare, the total cost of services provided by BWH exceeds the net reimbursement received under these programs by \$149,484 and \$122,227 for the years ended September 30, 2009 and 2008, respectively. The following summarizes, by program, the cost of services provided, net reimbursement and cost of services in excess of reimbursement for each year:

	Years Ended September 30,	
	2009	2008
Cost of services provided		
Free Care, including assessment payment to HSN of \$19,514 and \$17,340 in 2009 and 2008, respectively	\$ 38,056	\$ 34,472
Medicaid	137,446	132,023
Medicare	441,939	381,600
	<u>\$ 617,441</u>	<u>\$ 548,095</u>
Net reimbursement		
Free Care	\$ 14,535	\$ 13,395
Medicaid	107,314	105,234
Medicare	346,108	307,239
	<u>\$ 467,957</u>	<u>\$ 425,868</u>
Cost of services in excess of reimbursement		
Free Care	\$ 23,521	\$ 21,077
Medicaid	30,132	26,789
Medicare	95,831	74,361
	<u>\$ 149,484</u>	<u>\$ 122,227</u>

Bad Debts

In addition to free care and inadequate funding from the Medicaid and Medicare programs, there are significant losses related to self-pay patients who fail to make payment for services rendered or insured patients who fail to remit co-payments and deductibles as required under the applicable health insurance arrangement. The provision for bad debts of \$18,877 in 2009 and \$14,419 in 2008 represents charges for services provided that are deemed to be uncollectible. The estimated cost of providing these services was approximately \$6,032 and \$4,729 for 2009 and 2008, respectively.

2. Summary of Significant Accounting Policies

Basis of Accounting

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

The Brigham and Women's Hospital, Inc.

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(dollars in thousands)

Use of Estimates

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

Fair Value of Financial Instruments

The fair value of financial instruments approximates the carrying amount reported in the balance sheets for cash and equivalents, investments, investments limited as to use, patient accounts receivable, research grants receivable, and accounts payable. More information can be found in Note 4, Fair Value Measurements.

Cash and Equivalents

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

Investments

BWH holds investments which represent units in a partnership (Note 3) and are recorded on the equity method of accounting, with the change in net unrealized appreciation included in excess of revenues over expenses as a component of income from investments. Separately invested investments (marketable investments) are measured at either fair value, generally based on quoted market prices, with the change in net unrealized appreciation excluded from excess of revenues over expenses, or at cost.

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

Investments with unrealized depreciation are reviewed each quarter to determine whether these investments are other-than-temporarily impaired. This review considers factors including the anticipated holding period for the investment and the extent and duration of below cost valuation.

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

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

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(dollars in thousands)

Investments Limited as to Use

Investments limited as to use primarily include assets whose use is contractually limited by external parties and assets set aside by the Board of Trustees (or management) for identified purposes, over which the Board (or management) retains control and may, at its discretion, subsequently use for other purposes. Certain investments corresponding to deferred compensation are accounted for such that all income and appreciation (depreciation) is recorded as a direct addition (reduction) to the asset balance and corresponding liability balance.

Patient Accounts Receivable

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

Research Grants Receivable

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

Property and Equipment

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

Asset Retirement Obligations

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

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Other Assets

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

Compensated Absences

In accordance with formal policies concerning vacation and other compensated absences, accruals of approximately \$47,461 and \$45,871 were recorded as of September 30, 2009 and 2008, respectively.

Unexpended Funds on Research Grants

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

Self-Insurance Reserves

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

Net Assets

Permanently restricted net assets include only the historical dollar amounts of gifts which are required by donors to be permanently retained. Temporarily restricted net assets include gifts, and income and gains on permanently restricted net assets which can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (capital projects, pledges to be paid in the future, life income funds) or by interpretations of law (gains available for appropriation but not appropriated in the current period). Unrestricted net assets include all the remaining net assets of BWH. See Note 13 for further information on the composition of restricted net assets.

Realized gains and losses are classified as unrestricted net assets unless they are restricted by the donor or law. Unless permanently restricted by the donor, realized gains and unrealized net appreciation on permanently restricted gifts are classified as temporarily restricted until appropriated for spending by BWH in accordance with policies established by Partners HealthCare and the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted by the Commonwealth of Massachusetts in July 2009. Net losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the fair value exceeds book value.

Gifts and Grants

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

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(dollars in thousands)

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

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

Statement of Operations

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

BWH recognizes changes in third-party payer settlements and other estimates in the year of the change in estimate. For the years ended September 30, 2009 and 2008, adjustments to prior year estimates resulted in an increase to income from operations of \$17,837 and \$13,372, respectively.

Effective October 1, 2007, the Centers for Medicare and Medicaid Services (CMS) adopted the MS-DRG patient classification system (MS-DRGs) for inpatient services to better recognize severity of illness in Medicare payment rates for acute care hospitals. The adoption of MS-DRGs resulted in the expansion of the number of diagnosis related groups (DRGs), a system of classifying patients for purposes of inpatient reimbursement. By increasing the number of DRGs and more fully taking into account patients' severity of illness in Medicare payment rates for acute care hospitals, the use of MS-DRGs encourages hospitals to improve their documentation and coding of patient diagnoses. CMS has determined that the adoption of the MS-DRGs has increased aggregate payments to hospitals due to additional documentation and coding without a corresponding increase in actual patient severity of illness.

CMS is required by current law to maintain budget neutrality by adjusting the Medicare payment rate to eliminate the estimated effect of changes in coding or classification that do not reflect real changes in case-mix. CMS has determined that maintaining budget neutrality requires a reduction of 2.5% to the 2008 payment rate and estimates an additional 2.3% reduction to the 2009 rate. CMS has already reduced the 2008 and 2009 payment rates by 0.6% and 0.9%, respectively, with the remainder to be recouped through future rate reductions on a prospective basis. The estimated amount to be recouped of \$11,770 as of September 30, 2009 has been recorded as deferred revenue and will be amortized into net patient service revenue in the fiscal years that CMS implements the future rate reductions. Management believes this accounting treatment better reflects the financial impact of this rate methodology and more accurately presents the recognition of revenue.

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

The Brigham and Women's Hospital, Inc.

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(dollars in thousands)

Net Patient Service Revenue

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

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

Charity Care

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

Other Revenue

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

3. Investments and Investments Limited as to Use

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

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

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

	September 30, 2009	2008
Current assets		
Current portion of investments limited as to use	\$ 72,997	\$ 76,041
	<u>72,997</u>	<u>76,041</u>
Investments limited as to use, less current portion	16,589	16,622
Long-term investments	<u>125,820</u>	<u>123,737</u>
	<u>\$ 215,406</u>	<u>\$ 216,400</u>

Investments limited as to use consist of the following:

	September 30, 2009		September 30, 2008	
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion
Internally designated funds				
Deferred compensation	\$ -	\$ 2,247	\$ -	\$ 2,151
Externally limited funds				
Unexpended funds on research	63,925	-	69,670	-
Contributions held for others	9,072	-	6,362	-
Professional liability trust fund	-	14,342	-	11,334
Held by trustees under debt and other agreements	-	-	9	3,137
	<u>72,997</u>	<u>14,342</u>	<u>76,041</u>	<u>14,471</u>
	<u>\$ 72,997</u>	<u>\$ 16,589</u>	<u>\$ 76,041</u>	<u>\$ 16,622</u>

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Investments and investments limited as to use are reported at either fair value or on the equity or cost methods of accounting. The composition of these investments, segregated between pooled investments and those that are separately invested, is as follows:

	September 30, 2009			
	At Fair Value	On Equity Method	On Cost Method	Total
Pooled investments	\$ -	\$ 213,159	\$ -	\$ 213,159
Separately invested Mutual funds	2,247	-	-	2,247
	<u>\$ 2,247</u>	<u>\$ 213,159</u>	<u>\$ -</u>	<u>\$ 215,406</u>
	September 30, 2008			
	At Fair Value	On Equity Method	On Cost Method	Total
Pooled investments	\$ -	\$ 211,104	\$ -	\$ 211,104
Separately invested				
Invested cash equivalents	\$ 8	\$ -	\$ -	\$ 8
Mutual funds	2,151	-	-	2,151
Other	-	-	3,137	3,137
	<u>2,159</u>	<u>-</u>	<u>3,137</u>	<u>5,296</u>
	<u>\$ 2,159</u>	<u>\$ 211,104</u>	<u>\$ 3,137</u>	<u>\$ 216,400</u>

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

	Years Ended September 30,	
	2009	2008
Unrestricted		
Dividends and interest income	\$ 1,285	\$ 2,749
Endowment income distributions, net of reinvested gains	288	409
Net realized gains (losses) on investments		
Realized gains (losses)	(972)	537
Other-than-temporary impairment	(394)	(274)
Change in net unrealized appreciation on equity method investments	916	(2,892)
Losses on endowment funds	(59)	(640)
	<u>1,064</u>	<u>(111)</u>
Total investment activity included in excess of revenues over expenses		
Temporarily restricted		
Dividends and interest income	704	2,270
Endowment income distributions	(5,459)	(5,212)
Net realized gains (losses) on investments		
Realized gains	484	7,879
Other-than-temporary impairment	(4,019)	(2,882)
	<u>(8,290)</u>	<u>2,055</u>
Change in net unrealized appreciation on equity method investments	4,148	(26,194)
Losses on endowment funds	59	640
	<u>4,207</u>	<u>(25,554)</u>
Total temporarily restricted investment activity	<u>(4,083)</u>	<u>(23,499)</u>
Permanently restricted		
Dividends and interest income	7	-
	<u>\$ (3,012)</u>	<u>\$ (23,610)</u>

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

	Years Ended September 30,	
	2009	2008
Investment income (loss) included in operations and reported in Other revenue	\$ (20)	\$ 1,335
Investment income (loss) included in nonoperating gains (expenses) and reported in Income (loss) from investments	<u>1,084</u>	<u>(1,446)</u>
Total investment activity included in excess of revenues over expenses	<u>\$ 1,064</u>	<u>\$ (111)</u>

4. Fair Value Measurements

On October 1, 2008, BWH adopted new accounting guidance which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The adoption of this standard did not have a material impact on BWH's financial position and results of operations.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as "exit price"). Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. In determining fair value, the use of various valuation approaches, including market, income and cost approaches, is permitted.

Fair Value Hierarchy

A fair value hierarchy has been established based on whether the inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the reporting entity's assumptions about the inputs market participants would use. The fair value hierarchy requires the reporting entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. In addition, for hierarchy classification purposes, the reporting entity should not look through the form of an investment to the nature of the underlying securities held by an investee.

The hierarchy is described below.

- Level 1 - Valuations using quoted prices in active markets for identical assets or liabilities. Valuations of these products do not require a significant degree of judgment.

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- Level 2 - Valuations using observable inputs other than Level 1 prices such as quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; broker or dealer quotations; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - Valuations using unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

As of September 30, 2009, mutual funds of \$2,247 are classified within Level 1 as they are valued using quoted market prices.

5. Pledges Receivable and Contributions Receivable from Trusts

Pledges receivable represent unconditional promises to give and are net of allowances for uncollectible amounts. Pledges are recorded at the present value of their estimated future cash flows. Pledges collectible within one year are classified as other current assets and total \$25,448 and \$28,623 as of September 30, 2009 and 2008, respectively. Estimated cash flows due after one year are discounted using published treasury bond and note yields that are commensurate with estimated collection risks. The blended discount rate was 1.5% and 2.6% for 2009 and 2008, respectively. Pledges are expected to be collected as follows:

	September 30,	2008
	2009	2008
Amounts due		
Within one year	\$ 30,972	\$ 30,241
In one to five years	57,718	64,092
In more than five years	7,363	12,833
Total pledges receivable	<u>96,053</u>	<u>107,166</u>
Less: Unamortized discount	<u>2,391</u>	<u>7,840</u>
	93,662	99,326
Less: Allowance for uncollectibles	<u>30,291</u>	<u>3,107</u>
Net pledges receivables	63,371	96,219
Contributions receivable from trusts	<u>1,741</u>	<u>1,863</u>
	<u>\$ 65,112</u>	<u>\$ 98,082</u>

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6. Property and Equipment

Property and equipment consists of the following:

	September 30,	
	2009	2008
Land and land improvements	\$ 19,891	\$ 19,891
Buildings and building improvements	1,188,441	1,095,744
Equipment	298,032	290,037
Construction in progress	48,002	62,459
	<u>1,554,366</u>	<u>1,468,131</u>
Accumulated depreciation	<u>(569,628)</u>	<u>(503,810)</u>
Property and equipment, net	<u>\$ 984,738</u>	<u>\$ 964,321</u>

Interest costs, net of interest earned, aggregating \$317 and \$6,845 were capitalized in 2009 and 2008, respectively.

For the years ended September 30, 2009 and 2008, fully depreciated assets with an original cost of \$35,589 and \$43,107, respectively, were written off.

7. Long-Term Obligations

Long-term obligations consist of the following:

	September 30,	
	2009	2008
Notes payable to PHS		
Partners HealthCare Capital Framework Loan, variable interest rate of 4.33% and 4.88% at September 30, 2009 and 2008, respectively, final maturity in 2039	\$ 642,915	\$ 603,858
Capital lease obligations	<u>860</u>	<u>2,091</u>
	643,775	605,949
Less current portion	<u>25,711</u>	<u>22,869</u>
	<u>\$ 618,064</u>	<u>\$ 583,080</u>

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

Partners HealthCare Series 2007 Taxable Bonds and the Massachusetts Health and Educational Facilities Authority's Series A through I bonds issued on behalf of Partners HealthCare and the Series P loan to PHS are unsecured general obligations of PHS, supported by guarantees from BW/F, BWH, MGH, and The General Hospital Corporation (the General) which may be suspended under certain conditions.

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Aggregate maturities and payments of long-term obligations of BWH including obligations under capital leases (Note 8), during the next five years are as follows: 2010 - \$25,711; 2011 - \$25,825; 2012 - \$27,029, 2013 - \$28,471 and 2014 - \$30,022.

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

Interest expense approximates interest paid, net of capitalized interest, during the years ended September 30, 2009 and 2008.

8. Leases

BWH has capital and noncancelable operating leases for certain buildings and equipment. Rental expense under operating leases approximated \$55,524 in 2009 and \$54,347 in 2008, including expenses under leases with BW/F of \$768 in 2009 and 2008. Minimum future lease commitments under noncancelable leases, including a total commitment of \$6,912 for research building rentals with BW/F, for the next five years and thereafter are as follows:

	Capital Leases	Operating Leases
2010	\$ 878	\$ 60,210
2011	-	55,001
2012	-	49,956
2013	-	48,679
2014	-	44,855
Thereafter	-	233,297
Total lease payments	<u>878</u>	<u>\$ 491,998</u>
Less amount representing interest	<u>18</u>	
Capital lease obligations at September 30, 2009	<u>\$ 860</u>	

9. Pension and Postretirement Healthcare Plans

Substantially all employees of BWH are covered under The Brigham and Women's Hospital Retirement Plan (BWH Plan), a noncontributory defined benefit pension plan. Benefits under the cash balance accrual formula consist of annual allocations to participants' accounts based on the participants' age, years of service and salary. Interest is credited to participants' accounts annually at market rates. The amount of pension expense allocated to BWH was \$15,783 in 2009 and \$20,663 in 2008.

Eligible employees of BWH and BWPO can participate in the BWH Retiree Medical Savings Account Plan. This plan is funded primarily with employee contributions. The employer also provides an annual match and interest is credited annually to participant accounts at market rates.

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Certain professional staff employed by BWH who hold appointments at the Harvard Medical School, as well as certain administrative staff, participate in the Brigham and Women's Hospital Professional Staff Retirement Plan, which is a defined contribution plan. BWH contributes to the plan a percentage, as defined by the plan agreement, of each participant's annual compensation. The amount of expense incurred by BWH under this plan for 2009 and 2008 was \$11,461 and \$10,634, respectively.

In 2009, BWH changed its defined benefit plans measurement date from June 30 to September 30. For BWH, this measurement date change resulted in a decrease in assets of \$27,678, an increase in liabilities of \$544 and a decrease in unrestricted net assets of \$28,222.

Benefit Obligations

Change in Benefit Obligations	Defined Benefit Pension Plan		Postretirement Healthcare Benefit Plan	
	2009	2008	2009	2008
Benefit obligations at beginning of year	\$ 649,994	\$ 635,960	\$ 10,447	\$ 6,650
Service cost	28,988	33,511	664	522
Interest cost	46,031	41,168	752	446
Plan amendments	3,669	2,347	-	-
Actuarial loss (gain)	239,119	(42,414)	1,354	430
Employee contributions	-	-	2,740	2,441
Benefits paid	(22,684)	(18,764)	(152)	(42)
Expenses paid	(1,599)	(1,814)	-	-
Adjustment for change in measurement date	(64,775)	-	535	-
Benefit obligations at end of year	<u>\$ 878,743</u>	<u>\$ 649,994</u>	<u>\$ 16,340</u>	<u>\$ 10,447</u>

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The accumulated benefit obligation for the defined benefit pension plan at the end of 2009 and 2008 was \$738,112 and \$566,594, respectively.

Weighted-Average Assumptions Used to Determine End of Year Benefit Obligation	Defined Benefit Pension Plan		Postretirement Healthcare Benefit Plan	
	2009	2008	2009	2008
Discount rate	5.75%	6.75%	4.55%	5.75%
Rate of compensation increase	5.10%	5.10%	N/A	N/A

Plan Assets

Change in Plan Assets	Defined Benefit Pension Plan		Postretirement Healthcare Benefit Plan	
	2009	2008	2009	2008
Fair value of plan assets at beginning of year	\$ 731,989	\$ 707,429	\$ 7,382	\$ 5,598
Actual return on plan assets	17,507	21,283	459	(657)
Employer contributions	19,017	23,855	152	42
Employee contributions	-	-	2,740	2,441
Benefits paid	(22,684)	(18,764)	(152)	(42)
Expenses paid	(1,599)	(1,814)	-	-
Adjustment for change in measurement date	(87,151)	-	4	-
Fair value of plan assets at end of year	<u>\$ 657,079</u>	<u>\$ 731,989</u>	<u>\$ 10,585</u>	<u>\$ 7,382</u>

BWH's benefit plan weighted-average target asset allocation ranges as well as actual allocations, by asset category for 2009 and 2008, are as follows:

Asset Category	Defined Benefit Pension Plan			Postretirement Healthcare Benefit Plan		
	Target Allocation	Percentage of Plan Assets		Target Allocation	Percentage of Plan Assets	
		2009	2008		2009	2008
Domestic equity securities	4% - 24%	18.3%	14.5%	40% - 60%	51.4%	48.0%
Foreign equity securities	15% - 35%	25.8%	20.2%	10% - 30%	10.0%	10.0%
Fixed income securities	1% - 21%	19.0%	18.3%	30% - 50%	38.6%	42.0%
Less market sensitive strategies	20% - 40%	28.5%	30.4%	-	-	-
Inflation protection strategies	6% - 26%	8.4%	16.6%	-	-	-
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

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

Funded Status

The funded status of the plans recognized in the balance sheet and amounts recognized in unrestricted net assets, follows:

End of Year	Defined Benefit Pension Plan		Postretirement Healthcare Benefit Plan	
	2009	2008	2009	2008
Fair value of plan assets at measurement date	\$ 657,079	\$ 731,989	\$ 10,585	\$ 7,382
Contributions received after measurement date	-	5,834	-	34
Benefit obligations at measurement date	(878,743)	(649,994)	(16,340)	(10,447)
Funded status	<u>\$ (221,664)</u>	<u>\$ 87,829</u>	<u>\$ (5,755)</u>	<u>\$ (3,031)</u>
Amounts recognized in balance sheet consist of				
Noncurrent assets	\$ -	\$ 87,829	\$ -	\$ -
Long-term liabilities	(221,664)	-	(5,755)	(3,031)
	<u>\$ (221,664)</u>	<u>\$ 87,829</u>	<u>\$ (5,755)</u>	<u>\$ (3,031)</u>
Amounts recognized in unrestricted net assets consist of				
Actuarial net loss (gain)	\$ 214,615	\$ (91,408)	\$ 3,054	\$ 1,321
Prior service cost	3,379	3,579	-	-
	<u>\$ 217,994</u>	<u>\$ (87,829)</u>	<u>\$ 3,054</u>	<u>\$ 1,321</u>

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Expected Cash Flows

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

	Defined Benefit Pension Plan	Postretirement Healthcare Benefit Plan
Expected employer contributions - 2010	\$ 44,454	\$ 245
Expected benefit payments		
2010	27,230	245
2011	30,902	334
2012	35,357	450
2013	38,532	563
2014	43,029	707
2015 and thereafter	288,229	3,967

Net Periodic Benefit Cost

	Defined Benefit Pension Plan		Postretirement Healthcare Benefit Plan	
	2009	2008	2009	2008
Service cost	\$ 28,988	\$ 33,511	\$ 664	\$ 522
Interest cost	46,031	41,168	752	446
Expected return on plan assets	(56,824)	(51,314)	(548)	(417)
Amortization of				
Prior service cost (credit)	3,829	(29)		-
Actuarial net (gain) loss	(4,379)	-	73	-
Net periodic benefit cost	<u>\$ 17,645</u>	<u>\$ 23,336</u>	<u>\$ 941</u>	<u>\$ 551</u>

Amounts expected to be amortized from unrestricted net assets into net periodic benefit cost during the year ending September 30, 2010, are as follows:

	Defined Benefit Pension Plan	Postretirement Healthcare Benefit Plan
Actuarial net loss	\$ 3,761	\$ 178
Prior service cost	160	-

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Weighted-Average Assumptions Used to Determine Net Periodic Cost and Postretirement Cost	Defined Benefit Pension Plan		Postretirement Healthcare Benefit Plan	
	2009	2008	2009	2008
Discount rate	7.65%	6.25%	6.50%	6.25%
Expected return on plan assets	8.25%	8.25%	7.50%	7.50%
Rate of compensation increase	5.10%	5.10%	N/A	N/A

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

10. Professional Liability Insurance

BWH insures substantially all of its professional and general liability risk on a claims-made basis in cooperation with PHS affiliates and other organizations in the Greater Boston area through a captive insurance company, Controlled Risk Insurance Company Ltd. (CRICO). The policy covers claims made during its term, but not those occurrences for which claims may be made after expiration of the policy, except for certain tail liabilities which CRICO has assumed on an occurrence basis through December 31, 2009. Management intends to renew its coverage on a claims-made basis and has no reason to believe that it will be prevented from such renewal.

BWH follows the accounting policy of establishing reserves to cover all professional liability claims incurred but not reported to the insurance company as of the end of the year (tail liability), excluding the tail liability assumed by CRICO. These reserves have been estimated by consulting actuaries on a discounted basis using an interest rate of 5.75% at September 30, 2009 and 2008.

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

11. Transactions with Affiliates

BWH received fund-raising, investment management, legal, financial and administrative services from PHS and BW/F of \$155,546 and \$139,259 in 2009 and 2008, respectively. BWH also purchased certain teaching and administrative services, professional services, as well as leased space from PHS affiliates which amounted to \$70,382 and \$62,809 in 2009 and 2008, respectively. BWH provided certain administrative and support services, as well as leased space and professional services to PHS affiliates, which totaled \$11,854 and \$10,349 in 2009 and 2008, respectively. All services among these affiliated corporations were reimbursed on an estimated cost basis.

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During 2009 and 2008, BWH transferred funds to, and received funds from, certain affiliated corporations. These equity transfers are reported separately as changes in net assets and are excluded from excess of revenues over expenses. Amounts transferred were as follows:

	Years Ended September 30,	
	2009	2008
Transfers from (to)		
BW/F	\$ (91,172)	\$ (42,362)
BWPO	38	-
PHS	459	1,841
Transfers to affiliates, net	<u>\$ (90,675)</u>	<u>\$ (40,521)</u>

12. Concentrations of Credit Risk

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

13. Restricted Net Assets

Restricted net assets are available for the following purposes:

	September 30,	
	2009	2008
Temporarily restricted		
Charity care	\$ 14,395	\$ 15,027
Buildings and equipment	63,073	67,420
Clinical care, research and academic	65,568	88,459
	<u>\$ 143,036</u>	<u>\$ 170,906</u>
Permanently restricted		
Charity care	\$ 1,846	\$ 1,846
Clinical care, research and academic	44,970	47,929
	<u>\$ 46,816</u>	<u>\$ 49,775</u>

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Endowment

BWH's endowment consists of over 150 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported as restricted or unrestricted based on the existence or absence of donor-imposed restrictions.

BWH has interpreted the UPMIFA as requiring the preservation of the value of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, BWH classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by BWH in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, BWH considers several factors in making a determination to appropriate or accumulate donor-restricted endowment funds. These factors include: the duration and preservation of the fund; the purposes of the organization and the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the organization; and the investment policies of the organization.

Endowment Funds with Deficits

From time to time, the value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts. When such endowment deficits exist, they are classified as a reduction to unrestricted net assets. Deficits of this nature reported in unrestricted net assets were \$749 and \$690 at September 30, 2009 and 2008, respectively. These deficits resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions or subsequent endowment additions.

The following presents the endowment net asset composition by type of fund as of September 30, 2009 and 2008 and the changes in endowment assets for the years ended September 30, 2009 and 2008:

Endowment Net Asset Composition by Type of Fund as of September 30, 2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Donor-restricted endowment funds	\$ (749)	\$ 78,618	\$ 46,816

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Changes in Endowment Net Assets for the Year Ended September 30, 2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2008	\$ (690)	\$ 82,688	49,775	\$ 131,773
Investment return				
Investment income	-	684	7	691
Net realized and unrealized appreciation (depreciation)	(59)	672	-	613
Total investment return	(59)	1,356	7	1,304
Contributions	-	-	4,374	4,374
Appropriation of endowment assets for expenditure	-	(5,459)	-	(5,459)
Other changes	-	33	(7,340)	(7,307)
Total changes	(59)	(4,070)	(2,959)	(7,088)
Endowment net assets at September 30, 2009	\$ (749)	\$ 78,618	\$ 46,816	\$ 124,685

Endowment Net Asset Composition by Type of Fund as of September 30, 2008	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (690)	\$ 82,688	\$ 49,775	\$ 131,773

Changes in Endowment Net Assets for the Year Ended September 30, 2008	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at October 1, 2007	\$ (50)	\$ 105,895	\$ 38,643	\$ 144,488
Investment return				
Investment income	-	1,604	-	1,604
Net realized and unrealized appreciation (depreciation)	(640)	(20,557)	-	(21,197)
Total investment return	(640)	(18,953)	-	(19,593)
Contributions	-	-	12,090	12,090
Appropriation of endowment assets for expenditure	-	(5,212)	-	(5,212)
Other changes	-	958	(958)	-
Total changes	(640)	(23,207)	11,132	(12,715)
Endowment net assets at September 30, 2008	\$ (690)	\$ 82,688	\$ 49,775	\$ 131,773

The Brigham and Women's Hospital, Inc.
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(dollars in thousands)

14. Functional Expenses

Total operating expenses by function are as follows:

	Years Ended September 30,	
	2009	2008
Healthcare services	\$ 1,323,542	\$ 1,196,355
Research and academic	504,453	461,245
General and administrative	<u>132,136</u>	<u>133,841</u>
	<u>\$ 1,960,131</u>	<u>\$ 1,791,441</u>

15. Contingencies

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

16. Subsequent Events

BWH has assessed the impact of subsequent events through December 11, 2009, the date the audited financial statements were available for issuance, and has concluded that there were no such events that require adjustment to the audited financial statements or disclosure in the notes to the audited financial statements.