Boston Medical Center

(Parent company only)

Financial Statements

September 30, 2009 and 2008

Boston Medical Center
(Parent company only)
Index
September 30, 2009 and 2008

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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, 2009 and 2008, 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 Health Plan, Inc. ("BMCHP") are affiliates of the Medical Center. As described in Note 15, 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, 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.

PricewaterhouseCoopers LLP

February 4, 2010

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

(in thousands)	**2009**	**2008**
Assets		
Current assets		
Cash and cash equivalents	$ 73,893	$ 7,314
Short-term investments	-	1,602
Patient accounts receivable, less allowance of $40,141 and $38,138 in 2009 and 2008	96,535	99,142
Other accounts receivable, less allowance of $9,387 and $17,740 in 2009 and 2008	40,290	214,476
Current portion of grants receivable, less allowance of $3,466 and $4,991 in 2009 and 2008	19,252	17,307
Current portion of estimated receivable for final settlements with third-party payors	22,386	6,399
Due from related parties, less allowance of $65 and $998 in 2009 and 2008	51,911	31,011
Inventories	3,142	3,188
Prepaid expenses and other current assets	6,300	6,079
Current portion of funds held by Trustees	32,612	75,712
Total current assets	346,321	462,230
Assets limited as to use		
Board-designated investments	225,790	229,121
Funds held by Trustees	154,645	180,876
Donor-restricted investments	206,483	208,117
	586,918	618,114
Long-term investments	-	4,488
Property, plant and equipment, net	499,146	476,240
Grants receivable, less current portion	71,775	79,351
Other noncurrent assets	258,082	205,954
Total assets	$ 1,762,242	$ 1,846,377
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 114,329	$ 136,496
Deferred revenue	19,151	19,198
Current portion of long-term debt and capital leases	15,079	14,424
Current portion of due to related parties	15,460	55,623
Total current liabilities	164,019	225,741
Estimated final settlements with third-party payors	38,718	42,039
Obligations under capital leases	74,496	82,633
Long-term debt	389,858	396,713
Other long-term liabilities	61,324	39,918
Long-term portion of due to related parties	7,432	7,033
Total liabilities	735,847	794,077
Commitments and contingencies		
Net assets		
Unrestricted	627,750	590,432
Temporarily restricted	382,292	445,515
Permanently restricted	16,353	16,353
Total net assets	1,026,395	1,052,300
Total liabilities and net assets	$ 1,762,242	$ 1,846,377

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

Boston Medical Center
(Parent company only)
Statements of Operations
Years Ended September 30, 2009 and 2008

(in thousands)	2009	2008
Operating revenue		
Net patient service revenue	$ 874,042	$ 965,875
Grants and contract revenue	82,177	77,115
Other revenue	11,485	11,525
Net assets released from restrictions for operations	25,074	23,387
Total operating revenue	992,778	1,077,902
Operating expenses		
Salaries and wages	440,042	423,941
Supplies and expenses	289,798	306,622
Institutional support (Note 15)	97,181	98,651
Depreciation and amortization	55,743	50,249
Interest expense	8,662	11,062
Provision for bad debts	29,661	28,390
Research, sponsored programs and community health services	96,378	89,665
Total operating expenses	1,017,465	1,008,580
(Loss) gain from operations	(24,687)	69,322
Nonoperating gains (losses), net		
Investment income (loss) (including other-than-temporary impairment losses of $1,669 and $28,530 in 2009 and 2008, respectively)	18,754	(11,134)
Other	(4,576)	(1,986)
Total nonoperating gains (losses), net	14,178	(13,120)
(Deficiency) excess of revenue over expenses	(10,509)	56,202
Other changes in unrestricted net assets		
Change in unrealized appreciation (depreciation) on investments	4,129	(9,370)
Net assets released from restrictions for property, plant and equipment	66,194	78,415
Pension related changes other than net periodic pension costs	(21,233)	(4,672)
Change in unrestricted net assets	$ 38,581	$ 120,575
Unrestricted net assets, beginning of year		
As previously reported	590,432	469,857
Adjustments for change in accounting for pensions and postretirement benefits	(1,263)	-
As adjusted	589,169	469,857
End of year	$ 627,750	590,432

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, 2009 and 2008

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at September 30, 2007	$ 469,857	$ 541,134	$ 16,353	$ 1,027,344
Increases (decreases) in net assets				
Excess of revenues over expenses	56,202	-	-	56,202
Investment income	-	9,570	-	9,570
Change in unrealized (depreciation) on investments	(9,370)	(56,489)	-	(65,859)
Contribution revenue	-	53,102	-	53,102
Net assets released from restrictions for operations	-	(23,387)	-	(23,387)
Net assets released from restrictions for property, plant and equipment	78,415	(78,415)	-	-
Pension related changes other than net periodic pension costs	(4,672)	-	-	(4,672)
Total increase (decrease) in net assets	120,575	(95,619)	-	24,956
Net assets at September 30, 2008	590,432	445,515	16,353	1,052,300
Adjustment for change in accounting for pensions and postretirement benefits	(1,263)	-	-	(1,263)
Net assets as adjusted	589,169	445,515	16,353	1,051,037
Increases (decreases) in net assets				
(Deficiency) excess of revenues over expenses	(10,509)	-	-	(10,509)
Investment income	-	4,579	-	4,579
Change in unrealized appreciation on investments	4,129	4,704	-	8,833
Contribution revenue	-	18,762	-	18,762
Net assets released from restrictions for operations	-	(25,074)	-	(25,074)
Net assets released from restrictions for property, plant and equipment	66,194	(66,194)	-	-
Pension related changes other than net periodic pension costs	(21,233)	-	-	(21,233)
Total increase (decrease) in net assets	38,581	(63,223)	-	(24,642)
Net assets at September 30, 2009	$ 627,750	$ 382,292	$ 16,353	$ 1,026,395

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, 2009 and 2008

(in thousands)	2009	2008
Operating activities		
Change in net assets	$ (25,905)	$ 24,956
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Accretion of discount on long-term grants	(3,467)	(3,744)
Depreciation and amortization	55,743	50,249
Investment in NEIDL	(6,889)	(26,850)
Restricted contributions	(4,250)	(6,192)
Donated securities received	(663)	(464)
Loss on disposal of fixed assets	592	-
Amortization of bond discount	104	25
Discount and allowance for contributions receivable	4,629	7,339
Net realized (gains) losses and change in unrealized (appreciation) depreciation on investments	(12,144)	91,233
Equity in net losses of joint ventures	39	1,478
(Decrease) increase in asset retirement obligation	(873)	104
Provision for bad debts	29,661	28,390
Pension-related changes other than net periodic pension costs	21,233	4,672
Change in pension measurement date	1,263	-
Changes in operating assets and liabilities		
Grants receivable	9,098	6,745
Patient accounts receivable	(27,054)	(44,386)
Other current assets and liabilities	169,335	(138,057)
Other noncurrent assets and liabilities	5,721	(2,431)
Due to/from related parties	(60,664)	32,613
Estimated final settlements with third-party payors	(19,308)	(14,630)
Accounts payable and accrued expenses	(21,109)	26,115
Net cash provided by operating activities	115,092	37,165
Investing activities		
Investment in NEIDL (Note 20)	(2,258)	(16,371)
Investment in NAB Business Trust	(53,571)	(53,667)
Investment in subsidiaries, net	2,694	(7,761)
Purchases of short-term investments	(11)	(403)
Proceeds from sale of short-term investments	1,614	85,176
Purchases of investments	(78,546)	(479,448)
Proceeds from sale of investments	173,282	486,282
Purchase of property, plant and equipment	(78,380)	(94,189)
Proceeds from sales of donated securities	663	464
Increase in construction fund from new borrowings	(3,809)	(197,279)
Net cash used in investing activities	(38,322)	(277,196)
Financing activities		
Repayment of long-term debt and capital leases	(14,441)	(17,575)
Proceeds from restricted contributions	4,250	6,192
Proceeds from borrowings	-	237,884
Net cash (used in) provided by financing activities	(10,191)	226,501
Increase (decrease) in cash and cash equivalents	66,579	(13,530)
Cash and cash equivalents at beginning of year	7,314	20,844
Cash and cash equivalents at end of year	$ 73,893	$ 7,314
Supplemental disclosure of noncash activities		
Cash paid for interest	$ 8,713	$ 7,911
Property, plant, and equipment included in accounts payable	2,846	3,904
Conditional asset retirement obligations	912	949
Net fixed assets recognized related to conditional asset retirement obligations	(259)	(265)
Contributed securities	663	464
Investment in NEIDL	6,889	26,850

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 or "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 $89,088,000 and $99,873,000 as of June 30, 2009 and 2008, respectively, and total assets of $141,448,000 and $140,786,000 as of June 30, 2009 and 2008, respectively. The Foundation had total operating revenue of $271,322,000 and $248,638,000 for the years ended June 30, 2009 and 2008, respectively, before any eliminations, and a decrease in unrestricted net assets of $10,785,000 and $899,959 for the years ended June 30, 2009 and 2008, respectively.

BMCHP was established as an independent 501(c)(3) organization on July 1, 1997. BMCHP was established to administer the BMC Health 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 $158,683,000 and $187,433,000 as of September 30, 2009 and 2008, respectively, and total assets of $300,050,000 and $306,225,000 as of September 30, 2009 and 2008, respectively. BMCHP had total operating revenue of $1,172,208,000 and $1,108,108,000, before eliminations, and a decrease in unrestricted net assets of $28,750,000 and an increase of $48,592,000 for the years ended September 30, 2009 and 2008, respectively.

Effective July 1, 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, 2009 and 2008. BMCIC had total shareholder's equity of $6,695,000 and $11,695,000 and total assets of $103,168,000 and $106,408,000 as of September 30, 2009 and 2008, 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 is owned 100% by the Medical Center. BMCIC of Vermont had total shareholder's equity of $284,663 and $295,660 and total assets of $322,163 and $333,160 as of September 30, 2009 and 2008, 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. For the years ended September 30, 2009 and 2008, 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, its 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 (deficiency) excess of revenues over expenses unless the income or loss is restricted by donor or law. The change in unrealized appreciation (depreciation) on investments is 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 at September 30, 2008. During 2009, the Medical Center sold the remaining balance of funds in these investments, resulting in a $0 balance at September 30, 2009.

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, 2009 and 2008, 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, 2009 and 2008, 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 Non current 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 20), 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's 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, 2009 and 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 $1,813,735 and $784,074 as of September 30, 2009 and 2008, respectively. As of September 30, 2009 and 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 the Medical Center 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 as long-term assets and liabilities for the years ended September 30, 2009 and 2008.

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, 2009 and 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 with accrued interest of $195,326 and $256,888 as of September 30, 2009 and 2008, respectively. As of September 30, 2009 and 2008, the Medical Center recorded $2,275,913 as an investment in FGH.

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 the Medical Center 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 as long-term assets and liabilities for the years end September 30, 2009 and 2008.

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, 2009 and 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, 2009 and 2008, with accrued interest of $2,608,623 and $797,770, respectively. 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 is 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 the 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 September 30, 2009, 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, were assigned to and recorded as a liability to the Medical Center. The Medical Center thus became 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.

In November and December, 2008, the Medical Center closed on a second and third round of NMTC financing for the construction of the Shapiro Ambulatory Care Center. The Medical Center was the beneficiary of an allocation of federal new market tax credits in the amounts of $46,696,600 and $24,000,000, respectively. In these two financing 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 loans of $33,582,465 and $19,516,600 have an interest rate of 3.00% and have accrued interest of $748,469 and $386,673, respectively, as of September 30, 2009. In the second round of New Market Tax Credit financing, the Medical Center also entered into an additional loan in the amount of $471,683 with an interest rate of 3.00%. Accrued interest of $12,781 related to this loan has been recorded as of September 30, 2009. All loans have been recorded as notes receivable as of September 30, 2009. These funds also became equity investments into CDEs. The CDEs, in turn, are required to make a series of loans to the BMC NAB Business Trust totaling $46,234,351 and $24,000,000 for the construction of the facility.

As part of these financing transactions, the Medical Center has entered into two put and call agreements in connection with the construction of the Shapiro Ambulatory Care Center. The purpose of these agreements is to ensure that the Medical Center retains control of the new building at the end of the NMTC period. If the put options are not exercised by the investors, then the call option may be exercised by the Medical Center during a four-month period following the put option period. If the call option is executed, then the Medical Center must pay the fair market value of the investors' interest.

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 $19,151,000 and $19,198,000 as of September 30, 2009 and 2008, respectively.

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 Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted by the Commonwealth of Massachusetts in July 2009. Unrestricted net assets include all the remaining net assets of the Medical Center. See Note 9 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 (deficiency) 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 (deficiency) excess of revenues over expenses. Changes in unrestricted net assets which are excluded from the (deficiency) excess of revenues over expenses, consistent with industry practice, include the change in unrealized appreciation (depreciation) 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), pension-related changes other than net periodic pension costs and the change in pension measurement date.

Favorable changes in prior year estimates from third-party payors recorded in the years ended September 30, 2009 and 2008 amounted to approximately $12,313,000 and $1,869,000, 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 Health Safety Net Office ("HSNO"), the Medical Center receives reimbursement for a significant portion of the charity care it provides.

The Medical Center provided free care of $115,971,418 and $118,719,793 in 2009 and 2008, 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 Commonwealth'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 2008 financial statements have been reclassified to conform to the 2009 presentation.

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:

(in thousands)	2009 Market Value	2009 Cost	2008 Market Value	2008 Cost
Cash and cash equivalents	$ 1,232	$ 1,232	$ 11,064	$ 11,063
Bonds and U.S. treasury notes	133,528	132,259	130,248	132,488
Private investment funds	124,407	118,110	149,209	143,135
Mutual funds	83,126	79,021	94,864	92,450
Marketable equity securities	54,543	57,151	56,629	59,783
Money market mutual funds	35,437	30,828	1,314	1,314
	432,273	418,601	443,328	440,233
Funds held by trustees	187,257	188,825	256,588	256,547
	$ 619,530	$ 607,426	$ 699,916	$ 696,780

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 $73,663,000 and $87,401,000 at September 30, 2009 and 2008, respectively.

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

(in thousands)	2009	2008
Unrestricted		
Dividends and interest	$ 12,300	$ 15,680
Net realized gains (losses) on investments	6,454	(26,814)
Change in unrealized appreciation (depreciation) on investments	4,129	(9,370)
	22,883	(20,504)
Temporarily restricted		
Dividends and interest	7,722	8,130
Net realized (losses) gains on investments	(3,143)	1,440
Change in unrealized appreciation (depreciation) on investments	4,704	(56,489)
	9,283	(46,919)
	$ 32,166	$ (67,423)

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.

4. Fair Value Measurements

Effective October 1, 2008, the Medical Center adopted new accounting guidance which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement data. In determining fair value, the use of various valuation approaches, including market, income and cost approaches, is permitted.

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 sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Medical Center for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1 – Observable inputs such as quoted prices in active markets;
- Level 2 – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 – Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

- Market approach – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- Cost approach – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- Income approach – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques).

The following table summarizes fair value measurements at September 30, 2009 for financial assets measured at fair value on a recurring basis.

(in thousands)	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	$ 1,232	$ -	$ -	$ 1,232
Bonds and U.S. treasury notes	-	133,528	-	133,528
Marketable equity securities	54,543	-	-	54,543
Private investment funds	-	-	124,407	124,407
Money market mutual funds	35,437	-	-	35,437
Mutual funds	83,126	-	-	83,126
	$ 174,338	$ 133,528	$ 124,407	$ 432,273
Funds held by trustee				
U.S. government securities	137,885	-	-	137,885
Money market mutual funds	49,372	-	-	49,372
	$ 187,257	$ -	$ -	$ 187,257

The following table presents the assets carried at fair value as of September 30, 2009 that are classified within level 3 of fair value hierarchy. The table reflects gains and losses for the year, including gains and losses on assets that were transferred to level 3 during the year, for all assets categorized as level 3 as of September 30, 2009. Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the Medical Center classified within the level 3 category. As a result, the unrealized gains and losses for assets within level 3 may include changes in fair value that were attributable to both observable and unobservable inputs.

(in thousands)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Balance as of October 1, 2008	$ 132,209
Realized gains (losses)	(2,117)
Unrealized gains (losses)	6,716
Purchases and sales, net	(12,401)
Balance as of September 30, 2009	$ 124,407

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 2009 and 2008, the Medical Center reported realized losses of approximately $1,669,000 and $28,530,000, respectively, relating to declines in fair value of investments that were determined by management to be other than temporary.

5. 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:

(in thousands)	2009	2008
Less than year	$ 2,199	$ 8,363
One year to five years	13,070	17,060
More than five years	9,400	7,700
	24,669	33,123
Less discounts and allowance for uncollectible accounts	(4,629)	(7,339)
Net contributions receivable	$ 20,040	$ 25,784

Discount rates used to calculate the present value of contributions receivable ranged from 3.24% - 16.74%, depending upon the anticipated pledge fulfillment date.

6. Property, Plant and Equipment

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

(in thousands)	Useful Life	2009	2008
Land and improvements	5-40 years	$ 5,893	$ 5,893
Buildings	15-45 years	161,474	161,474
Building and leasehold improvements	5-40 years	254,671	222,597
Fixed equipment	5-25 years	58,507	58,507
Major movable equipment	3-20 years	266,539	255,442
Leased buildings and equipment	15-20 years	218,806	218,806
Construction in progress		111,783	77,156
		1,077,673	999,875
Accumulated depreciation and amortization		(578,527)	(523,635)
Property, plant and equipment, net		$ 499,146	$ 476,240

Depreciation and amortization expense amounted to $55,743,000 and $50,249,000 for the years ended September 30, 2009 and 2008, 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 demolished 91 East Concord Street during the year ended September 30, 2009, to make way for the construction of the Shapiro Ambulatory Care Center. The original cost was $1,052,000 and $460,000 of accumulated depreciation.

The Medical Center has capitalized interest in the amount of $15,930,000 and $6,449,000 for the years ended September 30, 2009 and 2008, respectively.

7. Long-Term Debt

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

(in thousands)	**Interest Rate**	**2009**	**2008**
Massachusetts Health and Educational Facilities Authority			
Revenue Bonds Series B	4.00% - 5.75%	$ 245,175	$ 245,175
Revenue Bonds Series A	4.20% - 5.25%	129,079	133,295
ECMF Series A Bonds	5.85% - 6.45%	12,100	12,800
Series O - Refinancing	varies	1,176	2,376
Series O - Tax Exempt (Garage)	varies	12,513	12,895
Series O - Taxable (Garage)	varies	3,918	4,037
		403,961	410,578
Less current portion of long-term debt		(6,941)	(6,599)
Less revenue Bonds Series B discount		(7,162)	(7,266)
		$ 389,858	$ 396,713

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 ranges from 4.00% to 5.75% based on the bonds' 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 (UDF, 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 ranges from 4.2% to 5.25% based on the bonds' maturities. Principal and sinking fund payments will be made annually from 2010 to 2029 and range from $4,440,000 to $8,955,000. The bonds are redeemable at the option of the Medical Center prior to maturity between July 1, 2009 and June 30, 2010 at 100.5% 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 were 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.

In March 2009, RBS Citizens NA received a downgrade on its counterparty credit ratings from MA-I to A-/A2. Since the three loans were supported with Letters of Credit from RBS Citizens, the downgrade caused the variable interest rates to increase. For the three loans interest is payable at varying rates, which are reset weekly.

On August 14, 2009, the Medical Center refinanced the three Series M loans to Series O loans. RBS Citizens provided a Federal Home Loan Bank wrap (AAA rated) for the three Letters of Credit. The term and payment schedule for the loans did not change. The interest rates at September 30, 2009 were 0.23% and 0.47% for the tax exempt and taxable loans, respectively.

Included in the Medical Center's debt is approximately $17,896,000 of the Authority's variable rate demand bonds (VRDBs), Capital Asset Program Issue 2009 Series O-1 and O-2 (a refinancing of the Authority's Series M loans issued in 2005). The Medical Center has entered into irrevocable letters of credit (LOCs) with a financial institution to secure bond repayment and interest obligations associated with its VRDBs. If the VRDBs are unable to be remarketed, the trustee for the VRDB will request purchase under the LOC scheduled repayment terms. Based on the existing repayment and maturity terms of the underlying LOCs, the scheduled payments under the VRDB related LOCs will be determined when and if the VRDBs are unable to be remarketed.

The total amount outstanding on the three Letters of Credit from RBS Citizens is approximately $17,896,000. The Letter of Credit supporting the Series O 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 O 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.

	September 30,	
(in thousands)	**2009**	**2008**
Construction fund	$ 136,810	$ 194,693
Debt service fund	9,032	21,871
Debt service reserve funds	34,702	34,480
Accrued interest receivable	1,389	180
Workers compensation reserve funds	5,000	5,000
Other held funds	324	364
	$ 187,257	$ 256,588

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:

(in thousands)	
Years Ending September 30,	
2010	$ 6,941
2011	6,027
2012	7,001
2013	7,346
2014	7,749
Thereafter	368,897
	$ 403,961

The fair value of long-term debt was approximately $374,755,487 and $386,002,926 at September 30, 2009 and 2008, respectively.

8. Obligations Under Capital Leases

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

(in thousands)	2009	2008
City of Boston	$ 82,634	$ 90,458
Less current portion	(8,138)	(7,825)
	$ 74,496	$ 82,633

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 12) 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 12). 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 are made semiannually through 2008 and ranged from $512,944 to $1,374,021. Interest was 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, 2006 and the last payment for the five-year lease was made on February 13, 2008.

As of September 30, 2009 and 2008, assets under capital lease agreements amounted to approximately $218,806,000 for both years with accumulated amortization of $138,260,054 and $129,544,049, 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)

Year Ending September 30		
2010	$	11,484
2011		11,475
2012		11,486
2013		11,399
2014		11,121
Thereafter		41,829
Total minimum lease payments		98,794
Less amount representing interest		(16,160)
Present value of minimum lease payments		82,634
Less current portion		(8,138)
	$	74,496

9. 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)		**2009**		**2008**
Temporarily restricted				
Accumulated realized and unrealized gains	$	153,971	$	153,022
City of Boston Grants (Note 12)		79,351		86,634
Funds for the purchase of equipment and capital improvements		106,110		164,499
Other restricted purposes		42,860		41,360
	$	382,292	$	445,515
Permanently restricted				
Investments to be held in perpetuity	$	16,353	$	16,353

10. Endowments

The Medical Center’s endowment consists of approximately 175 donor–restricted funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds, are classified and reported as restricted or unrestricted based on the existence or absence of donor–imposed restrictions.

The Medical Center has interpreted the "Uniform Prudent Management of Institutional Funds Act" ("UPMIFA") as requiring the preservation of the original gift as of the gift date of the donor–restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Medical Center classifies as permanently restricted net assets, the original value of gifts donated to the permanent endowment. The remaining portion of the donor–restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Medical Center in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Medical Center considers the following factors in making a determination to appropriate or accumulate endowment funds. The factors include: the duration and preservation of the fund; the purpose 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.

As of September 30, 2009, the Medical Center did not have board-designated funds included in the endowment. The endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 190,130	$ 16,353	$ 206,483
	$ -	$ 190,130	$ 16,353	$ 206,483

Changes in endowment net assets for the year ended September 30, 2009, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2008	$ -	$ 191,764	$ 16,353	$ 208,117
Investment return				
Investment income	-	4,579	-	4,579
Net realized and unrealized appreciation (depreciation)	-	4,704	-	4,704
Total investment return	-	9,283	-	9,283
Payments to Evans Medical Foundation	-	(8,317)	-	(8,317)
Transfers to general fund	-	(2,600)	-	(2,600)
	-	(10,917)	-	(10,917)
Endowment net assets at September 30, 2009	$ -	$ 190,130	$ 16,353	$ 206,483

As of September 30, 2008, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 191,764	$ 16,353	$ 208,117
	$ -	$ 191,764	$ 16,353	$ 208,117

Changes in endowment net assets for the year ended September 30, 2008, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2007	$ -	$ 242,981	$ 16,353	$ 259,334
Investment return				
Investment income	-	9,570	-	9,570
Net realized and unrealized appreciation (depreciation)	-	(56,489)	-	(56,489)
Total investment return	-	(46,919)	-	(46,919)
Payments to Evans Medical Foundation	-	(7,298)	-	(7,298)
Transfers from general fund	-	3,000	-	3,000
	-	(4,298)	-	(4,298)
Endowment net assets at September 30, 2008	$ -	$ 191,764	$ 16,353	$ 208,117

11. 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 MassHealth (Office of Medicaid) 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 Health Safety Net Office ("HSNO"), 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 HSNO. Changes in the level of funding of the Health Safety Net Care Pool or in the regulations governing its administration may have an adverse impact on the Medical Center.

12. 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 8) is outstanding. The Base Assistance Grant payments were $10,750,000 in both 2009 and 2008. For each year as long as the FHA note is outstanding, the payment is expected to be $10,750,000. As discussed in Note 8, 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 $79,351,000 and $86,634,000 as of September 30, 2009 and 2008, respectively. These amounts are included in grants receivable and temporarily restricted net assets on the balance sheet at September 30, 2009 and 2008. The accretion of the discount on these grants of approximately $3,467,000 and $3,744,000 for the years ended September 30, 2009 and 2008, 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.

13. Benefit Plans Available to Employees

The Medical Center has a Tax Sheltered Annuity Plan (the "TSA Plan") which is a 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 $13,662,455 and $12,144,904 for the years ended September 30, 2009 and 2008, 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 $300,332 and $316,668 as of September 30, 2009 and 2008, respectively. The net periodic benefit cost recorded on the Plan amounted to $(19,688) and $(18,632) for the years ended September 30, 2009 and 2008, respectively.

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 September 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.

In 2009, the Medical Center changed the Pension Plans measurement date from June 30 to September 30. This measurement date change resulted in a one-time deduction to the opening amount of unrestricted net assets of $1,263,000.

(in thousands)	2009	2008
Accumulated benefit obligation	$ 73,803	$ 54,320
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	$ 63,179	$ 57,133
Service cost	4,495	4,611
Interest cost	4,153	3,600
Actuarial loss (gain)	14,145	(1,621)
Benefits paid	(782)	(508)
Administrative expense	-	(36)
Adjustment for change in measurement date	2,162	-
Projected benefit obligation at end of year	$ 87,352	$ 63,179
Change in plan assets		
Fair value of plan assets at beginning of year	$ 50,848	$ 49,016
Actual return on plan assets	(3,604)	(2,685)
Employer contributions	6,662	5,061
Benefits paid	(782)	(508)
Administrative expense	-	(36)
Adjustment for change in measurement date	952	-
Fair value of plan assets at end of year	$ 54,076	$ 50,848
Reconciliation of funded status		
Projected benefit obligation	$ 87,352	$ 63,179
Fair value of plan assets	54,076	50,848
Funded status	(33,276)	(12,331)
Contributions after measurement date	-	1,262
Accrued benefit liability	$ (33,276)	$ (11,069)

The components of net periodic benefit cost for the years ended September 30, 2009 and 2008 are as follows:

(in thousands)	2009	2008
Service cost	$ 4,495	$ 4,611
Interest cost	4,153	3,600
Expected return on plan assets	(3,807)	(3,603)
Amortization of prior service cost	1	1
Recognized actuarial loss	211	-
Net periodic benefit cost	$ 5,053	$ 4,609
Weighted average assumptions used to determine the net periodic cost for the period just ended		
Discount rate	6.50%	6.25%
Long-term rate of return	7.00%	7.00%
Compensation increase rate	5.00%	5.00%
Weighted average assumptions used to determine the benefit obligations		
Discount rate	5.50%	6.50%
Rate of compensation increase	4.50%	5.00%
Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
New net actuarial loss	$ 21,556	$ 4,667
Amortization of prior service cost	(1)	(1)
Amortization of net loss	(211)	-
Adjustment for change in measurement date	(53)	-
	$ 21,291	$ 4,666
Amounts recognized in unrestricted net assets		
Net prior service cost	$ 7	$ 8
Net actuarial loss	28,886	7,594
	$ 28,893	$ 7,602
Adjustment to unrestricted net assets for change in measurement date		
Service cost	$ 1,124	$ -
Interest cost	1,038	-
Expected return on plan assets	(952)	-
Recognized net loss	53	-
	$ 1,263	$ -

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 $2,231,506.

Pension Plan Assets

The pension plan weighted average asset allocation as of the measurement dates September 30, 2009 and June 30, 2008, respectively, is as follows:

	Target Allocation Fiscal Year Ending September 30, 2009	Percentage of Plan Assets at September 30, 2009	June 30, 2008
Asset category			
Equity securities	60%	57%	61%
Debt securities	40%	37%	38%
Other	0%	6%	1%
		100%	100%

The Medical Center contracts with NEPC, LLC for financial consulting services for the Pension Plan. NEPC provides the Medical Center's Investment Committee and management with financial analysis and recommendations on target allocations and investment managers. The Medical Center's investment objective is to achieve the highest reasonable total return after considering (i) plan liabilities, (ii) funding status and projected cash flows, (iii) projected market returns, valuations and correlations for various asset classes, and (iv) the Medical Center's ability and willingness to incur market risk. The Medical Center's Investment Committee actively manages the pension plan assets by selecting investments and investment managers to maximize the investment returns.

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.

Cash Flows

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

Expected contributions for fiscal year ending September 30, 2010	
Expected employer contributions	$ 5,800,000
Estimated future benefit payments reflecting expected future service for the fiscal year(s) ending September 30	
2010	$ 1,395,000
2011	1,769,000
2012	2,169,000
2013	2,659,000
2014	3,310,000
2015 - 2019	27,911,000

The Medical Center contributed $6,662,000 and $5,061,000 to the Pension Plan for the years ended September 30, 2009 and 2008, respectively. The Medical Center plans to make any necessary contributions during the upcoming fiscal 2010 year to ensure the Pension Plan continues to be adequately funded during the current market conditions.

14. 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 Health Safety Net Care Pool.

The mix of receivables from patients and third-party payors at September 30, 2009 and 2008 was as follows:

	2009	2008
Medicare	15 %	14 %
Medicaid	22	24
HMOs	22	23
Commercial	11	12
Blue Cross	6	6
Commonwealth Care	2	4
Other	5	4
Self-Pay	17	13
	100 %	100 %

15. Related Party Transactions

The Foundation and the Medical Center have significant transactions with each other for operating purposes. During the years ended September 30, 2009 and 2008, the Medical Center provided funding of approximately $97,181,000 and $98,651,000, 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 $30,507,000 and $16,361,000 at September 30, 2009 and 2008, respectively. In addition, the Medical Center owed the Foundation $9,978,000 and $12,688,000 at September 30, 2009 and 2008, respectively, and the amounts due are included in accounts payable and accrued expenses.

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 $94,318,000 and $88,862,000 for the years ended September 30, 2009 and 2008, respectively, and is included in net patient service revenue. At September 30, 2009, the Medical Center owed BMCHP $3,010,000 and at September 30, 2008, the Medical Center owed BMCHP $42,136,000. In addition, BMCHP owed the Medical Center $6,156,000 and $10,279,000 at September 30, 2009 and 2008, respectively, and the amounts due are 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 $9,042,000 and $15,217,000 for the years ending September 30, 2009 and 2008, respectively. The Medical Center has $16,166,000 and $14,315,000 of prepaid premiums and retrospective premium credits that were prepaid by the Medical Center to BMCIC at September 30, 2009 and 2008, respectively. In addition, the Medical Center has a liability to BMCIC of $7,432,000 representing the premium owed to BMCIC as of September 30, 2009.

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, 2009 and 2008, respectively. At September 30, 2009 and 2008, respectively, 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, 2009 and 2008, the Medical Center had loaned a total of $306,000 and $931,000, 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.

16. Functional Expenses

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

(in thousands)	**2009**	**2008**
Patient care	$ 712,982	$ 703,401
Medical education	72,073	69,869
Research, sponsored programs and community health services	96,379	86,824
General and administrative	136,031	148,486
	$ 1,017,465	$ 1,008,580

17. 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 were 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 made totaled $120,000,000 and $106,666,667 for the Commonwealth's fiscal years 2008 and 2009, respectively.

Section 122 Supplemental Payments
Fiscal year 2009 marks the last year of Section 122 payments for the Medical Center, with payments ending on June 30, 2009. EOHHS funded $106,666,667 for Section 122 payments for the Commonwealth's fiscal year 2009 for the Medical Center and BMCHP. As of September 30, 2009, the Medical Center has received all of the funds related to the $106,666,667. No replacement funding mechanism has been identified at this time to replace Section 122 payments going forward.

Safety Net Care Pool DSH Supplemental Payments
During fiscal year 2009 the Medical Center received and recorded in revenue $24,000,000 for additional supplemental funds related to fiscal year 2006 and 2007. In fiscal year 2006 and 2007, the Commonwealth agreed to pay two $12,000,000 supplemental payments to the Medical Center, but later had to defer this money due to the lack of the Commonwealth’s funding source. During the year ended June 30, 2009, additional funding became available, which enabled the Commonwealth to make this payment.

18. 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.

On July 15, 2009, the Medical Center filed a lawsuit in state court against The Commonwealth of Massachusetts to require the Commonwealth to adequately cover the costs of care for the Medical Center's low-income patients, and to recover monies owed to the Medical Center. Failure to resolve the issues underlying the Medical Center's lawsuit could have an adverse impact on the Medical Center. In light of the very early state of this litigation, it is not possible to predict the outcome with any degree of certainty.

In September 2009, allegations of wage and hour violations were made in complaints filed in Massachusetts Superior Court and the United States District Court for the District of Massachusetts. In sum, the plaintiffs allege that the Medical Center and other defendants failed to pay a class of hourly employees for missed and interrupted meal breaks, preliminary and postliminary hours worked, and mandatory training time. It is not possible at this time to express any opinion as to the merit of the action or the likelihood that the claimants will prevail.

19. 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.

20. 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 $140,990,000 of the construction costs of the facility. Boston University and Boston Medical Center will each provide $28,256,000 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 $68,014,942 and $61,126,052 at September 30, 2009 and 2008, 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 $24,092,430 for capital expenditures associated with the project.

21. Subsequent Events

In October 2009, the remainder of the CDE loans for the second round of New Market Tax Credit financing for the construction of the Shapiro Ambulatory Care Center was loaned to BMC NAB Business Trust in the amount of $43,763,000, which completes the full funding for the second round CDE loans of $46,234,000.

In December 2009, the final funding in the amount of $14,000,000 for the third round of New Market Tax Credit financing was loaned to BMC NAB Business Trust, which completes the full funding for the third round of CDE loans of $24,000,000.

Boston Medical Center has assessed the impact of other subsequent events through February 4, 2010, 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, other than the transaction described above.