Boston Medical Center

(Parent company only)

Financial Statements

September 30, 2011 and 2010

Boston Medical Center
(Parent company only)
Index
September 30, 2011 and 2010

	Page(s)
Report of Independent Auditors	1
Financial Statements	
Balance Sheets	2
Statements of Operations	3
Statements of Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6–37

pwc

Report of Independent Auditors

To the Board of Trustees
of Boston Medical Center

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 Boston Medical Center (parent company only) (the “Medical Center”) at September 30, 2011 and 2010, and the results of its operations, changes in its 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 Medical Center’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.

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 17, 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.

PricewaterhouseCoopers LLP

February 3, 2012

Boston Medical Center
(Parent company only)
Balance Sheets
September 30, 2011 and 2010

(in thousands)	2011	2010
Assets		
Current assets		
Cash and cash equivalents	$ 76,772	$ 29,771
Patient accounts receivable, less allowance of $17,887 and $20,464 in 2011 and 2010	66,529	68,367
Other accounts receivable, less allowance of $5,253 and $14,440 in 2011 and 2010	54,081	139,843
Current portion of grants receivable, less allowance of $3,349 and $3,444 in 2011 and 2010	21,743	18,341
Current portion of estimated receivable for final settlements with third-party payors	26,591	22,871
Due from related parties	61,572	66,061
Inventories	2,807	3,508
Prepaid expenses and other current assets	6,826	6,251
Current portion of funds held by Trustees	32,250	73,400
Total current assets	349,171	428,413
Assets limited as to use		
Board-designated investments	237,586	190,836
Funds held by Trustees	69,156	68,603
Donor-restricted investments	234,689	216,930
	541,431	476,369
Property, plant and equipment, net	454,584	501,662
Long-term portion of due from related parties	27,398	16,640
Grants receivable, less current portion	55,699	63,893
Other noncurrent assets	210,655	258,761
Total assets	$ 1,638,938	$ 1,745,738
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 122,399	$ 133,464
Deferred revenue	19,749	19,726
Current portion of long-term debt and capital leases	16,059	14,719
Current portion of due to related parties	26,586	13,170
Total current liabilities	184,793	181,079
Estimated final settlements with third-party payors	27,227	27,009
Obligations under capital leases	57,418	66,476
Long-term debt	376,993	383,925
Other long-term liabilities	74,010	64,558
Total liabilities	720,441	723,047
Commitments and contingencies		
Net assets		
Unrestricted	600,175	619,594
Temporarily restricted	301,969	386,744
Permanently restricted	16,353	16,353
Total net assets	918,497	1,022,691
Total liabilities and net assets	$ 1,638,938	$ 1,745,738

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

Boston Medical Center
(Parent company only)
Statements of Operations
Years Ended September 30, 2011 and 2010

(in thousands)	2011	2010
Operating revenue		
Net patient service revenue	$ 847,270	$ 881,825
Grants and contract revenue	87,969	84,538
Other revenue	17,379	15,888
Net assets released from restrictions for operations	22,629	23,581
Total operating revenue	975,247	1,005,832
Operating expenses		
Salaries and wages	443,215	456,729
Supplies and expenses	248,169	281,093
Institutional support (Note 17)	103,287	99,779
Depreciation and amortization	63,282	66,583
Interest expense	14,271	9,868
Provision for bad debts	33,586	29,416
Research, sponsored programs and community health services	99,766	97,305
Total operating expenses	1,005,576	1,040,773
Loss from operations	(30,329)	(34,941)
Nonoperating gains (losses), net		
Investment income (including other-than-temporary impairment losses of $3,313 and $453 in 2011 and 2010, respectively)	7,995	14,712
Fundraising costs and other	(2,815)	(3,243)
Total nonoperating gains	5,180	11,469
Deficiency of revenue over expenses	(25,149)	(23,472)
Other changes in unrestricted net assets		
Change in unrealized (depreciation) appreciation on investments	(11,484)	5,101
Net assets transfer from BMCHP	23,000	-
Other adjustments	1,836	-
Net assets released from restrictions for property, plant and equipment	958	11,000
Pension related changes other than net periodic pension costs	(8,580)	(785)
Change in unrestricted net assets	$ (19,419)	$ (8,156)
Beginning of year	619,594	627,750
End of year	$ 600,175	$ 619,594

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, 2011 and 2010

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at September 30, 2009	$ 627,750	$ 382,292	$ 16,353	$ 1,026,395
Increases (decreases) in net assets				
Deficiency of revenues over expenses	(23,472)	-	-	(23,472)
Investment income	-	5,198	-	5,198
Change in unrealized appreciation on investments	5,101	21,133	-	26,234
Contribution revenue	-	12,702	-	12,702
Net assets released from restrictions for operations	-	(23,581)	-	(23,581)
Net assets released from restrictions for property, plant and equipment	11,000	(11,000)	-	-
Pension related changes other than net periodic pension costs	(785)	-	-	(785)
Total (decrease) increase in net assets	(8,156)	4,452	-	(3,704)
Net assets at September 30, 2010	619,594	386,744	16,353	1,022,691
Increases (decreases) in net assets				
Deficiency of revenues over expenses	(25,149)	-	-	(25,149)
Investment income	-	8,205	-	8,205
Change in unrealized depreciation on investments	(11,484)	(13,108)	-	(24,592)
Contribution revenue	-	11,730	-	11,730
Net assets released from restrictions for operations	-	(22,629)	-	(22,629)
Net assets transfer from BMCHP	23,000	-	-	23,000
Other adjustments	1,836	-	-	1,836
Termination of NEIDL agreement	-	(68,015)	-	(68,015)
Net assets released from restrictions for property, plant and equipment	958	(958)	-	-
Pension related changes other than net periodic pension costs	(8,580)	-	-	(8,580)
Total decrease in net assets	(19,419)	(84,775)	-	(104,194)
Net assets at September 30, 2011	$ 600,175	$ 301,969	$ 16,353	$ 918,497

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, 2011 and 2010

(in thousands)	2011	2010
Operating activities		
Change in net assets	$ (104,194)	$ (3,704)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Accretion of discount on long-term grants	(2,868)	(3,174)
Depreciation and amortization	63,282	66,583
Investment in NEIDL	68,015	-
Restricted contributions	(2,534)	(1,102)
Donated securities received	(145)	(594)
Gain on disposal of fixed assets	-	(18)
Amortization of bond discount	95	99
Discount and allowance for contributions receivable	4,994	5,225
Net realized losses (gains) and change in unrealized depreciation (appreciation) on investments	21,762	(31,346)
Equity in net losses of joint ventures	248	346
Increase (decrease) in asset retirement obligation	962	(720)
Provision for bad debts	33,586	29,416
Pension-related changes other than net periodic pension costs	8,580	785
Changes in operating assets and liabilities		
Grants receivable	7,660	11,967
Patient accounts receivable	(31,748)	(1,248)
Other current assets and liabilities	80,917	(104,520)
Other noncurrent assets and liabilities	6,921	4,078
Due to/from related parties	7,147	(40,512)
Estimated final settlements with third-party payors	(3,502)	(12,194)
Accounts payable and accrued expenses	(9,593)	19,456
Net cash provided by (used in) operating activities	149,585	(61,177)
Investing activities		
Investment in NEIDL (Note 22)	-	(709)
Investment in forgiveness loan	(820)	(6,525)
Investment in subsidiaries, net	(1,224)	3,235
Purchases of investments	(315,904)	(162,862)
Proceeds from sale of investments	270,230	263,969
Purchase of property, plant and equipment	(42,800)	(66,647)
Proceeds from sales of donated securities	145	594
Net cash (used in) provided by investing activities	(90,373)	31,055
Financing activities		
Repayment of long-term debt and capital leases	(14,745)	(15,102)
Proceeds from restricted contributions	2,534	1,102
Net cash used in financing activities	(12,211)	(14,000)
Increase (decrease) in cash and cash equivalents	47,001	(44,122)
Cash and cash equivalents at beginning of year	29,771	73,893
Cash and cash equivalents at end of year	$ 76,772	$ 29,771
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 22,857	$ 23,482
Property, plant, and equipment included in accounts payable	1,053	2,525
Conditional asset retirement obligations	639	636
Net fixed assets recognized related to conditional asset retirement obligations	(323)	1,356
Contributed securities	145	594
Termination of NEIDL agreement	68,015	-
Noncash additions to fixed assets related to capital leases	-	690

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 Faculty Practice 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 $89,573,000 and $76,946,000 as of June 30, 2011 and 2010, respectively, and total assets of $116,304,000 and $103,101,000 as of June 30, 2011 and 2010, respectively. The Foundation had total operating revenue of $343,804,000 and $319,672,000 for the years ended June 30, 2011 and 2010, respectively, before any eliminations, and an increase (decrease) in unrestricted net assets of $12,627,000 and ($12,142,000) for the years ended June 30, 2011 and 2010, 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 $281,178,000 and $211,291,000 as of September 30, 2011 and 2010, respectively, and total assets of $422,924,000 and $338,715,000 as of September 30, 2011 and 2010, respectively. BMCHP had total operating revenue of $1,325,982,000 and $1,179,451,000, before eliminations, and an increase in unrestricted net assets of $69,887,000 and $52,608,000 for the years ended September 30, 2011 and 2010, 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, 2011 and 2010. BMCIC had total shareholder's equity of $120,000 and $120,000 and total assets of $96,680,000 and $100,115,000 as of September 30, 2011 and 2010, 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 $259,000 and $269,000 and total assets of $297,000 and $306,000 as of September 30, 2011 and 2010, 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, Inc. ("QMC"), was the 10% shareholder. On July 1, 2011 QMC and QMC ED Physicians, Inc. filed for Chapter 11 bankruptcy protection for the purpose of consummating a sale of QMC's assets to Steward Health Care System ("Steward"). A Steward subsidiary offered the highest bid for the QMC ED Physicians' interest in the Trust and as of January 20, 2012 Steward has satisfied all contingencies for the transfer of the shares. The Medical Center and the Trust are negotiating with Steward with respect to documentation of the transfer of the shares.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The financial statements include the accounts of the Medical Center, ECMF, MSO and UDF. All significant intercompany accounts and transactions have been eliminated. BMC publishes consolidated financial statements, its primary financial statements, which include the aforementioned entities, the Foundation, BMCHP, BMCIC, BMCIC of Vermont, Gryant and BMC 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. The Medical Center maintains approximately $83,040,000 and $32,807,000 at September 30, 2011 and 2010, respectively, of its cash and cash equivalents accounts with a single institution. The Medical Center has not experienced any losses associated with deposits at this institution.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities (marketable investments) 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 of revenues over expenses unless the income or loss is restricted by donor or law. The change in unrealized (depreciation) appreciation 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 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, 2011 and 2010, 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 as equity method investments or 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, 2011 and 2010, 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 its 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 are 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.

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 receivables and liabilities because such amounts, by their nature, or by virtue of regulation or legislation, will not be received or 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 $18,999,000 and $19,702,000 as of September 30, 2011 and 2010, 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 (depreciation) appreciation 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. Temporarily restricted net assets also includes the activity related to the withdrawal from the National Emerging Infectious Diseases Laboratory (“NEIDL”) joint venture.

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 in July 2009. Unrestricted net assets include all the remaining net assets of the Medical Center. See Note 11 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 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. 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 of revenues over expenses. Changes in unrestricted net assets which are excluded from the deficiency of revenues over expenses, consistent with industry practice, include the change in unrealized (depreciation) appreciation on investments, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and pension related changes other than net periodic pension costs. Other changes in unrestricted net assets include a net assets transfer from BMCHP to the Medical Center and an other adjustment to record land related to UDF.

(Unfavorable) favorable changes in prior year estimates from third-party payors recorded in the years ended September 30, 2011 and 2010 amounted to approximately ($424,000) and $3,675,000, 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 $148,005,000 and $139,311,000 in 2011 and 2010, respectively, based on charges forgone at established rates. Under healthcare 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.

3. Assets Limited as to Use

Assets limited as to use consist of the following at September 30:

(in thousands)	2011 At Fair Value	2011 Cost	2010 At Fair Value	2010 Cost
Cash and cash equivalents	$ 887	$ 887	$ 933	$ 933
Bonds and U.S. Treasury Notes	127,722	123,059	121,988	115,232
Private investment fund	115,924	112,335	78,999	68,511
Mutual funds	93,149	87,979	94,133	82,331
Marketable equity securities	68,829	71,317	45,360	42,999
Money market mutual funds	15,157	15,157	24,474	24,474
	421,668	410,734	365,887	334,480
Funds held by trustee	101,406	103,924	142,003	144,622
	$ 523,074	$ 514,658	$ 507,890	$ 479,102

The Medical Center recorded certain private investment funds of $50,607,000 and $41,879,000 at September 30, 2011 and 2010, respectively, as equity method investments. The cost associated with these investments totaled $43,914,000 and $30,966,000 at September 30, 2011 and 2010, respectively. 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 $115,924,000 and $78,999,000 at September 30, 2011 and 2010, respectively.

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

(in thousands)	2011	2010
Unrestricted		
Dividends and interest	$ 9,182	$ 10,343
Net realized (losses) gains on investments	(1,187)	4,369
Change in unrealized (depreciation) appreciation on investments	(11,484)	5,101
	(3,489)	19,813
Temporarily restricted		
Dividends and interest	4,188	4,455
Net realized gains on investments	4,017	743
Change in unrealized (depreciation) appreciation on investments	(13,108)	21,133
	(4,903)	26,331
	$ (8,392)	$ 46,144

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 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. 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).

Investments (except for private partnerships, which are reported on either the equity method or cost method of accounting) and funds held by trustee are classified within Level 1 or Level 2 of the fair value hierarchy as they are valued using quoted market prices, broker or dealer quotations, or other observable pricing sources.

The following table summarizes fair value measurements at September 30, 2011 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	$ 887	$ -	$ -	$ 887
Bonds and U.S. Treasury Notes	-	127,722	-	127,722
Marketable equity securities	68,829	-	-	68,829
Private investment funds	-	115,924	-	115,924
Money market mutual funds	15,157	-	-	15,157
Mutual funds	93,149	-	-	93,149
	$ 178,022	$ 243,646	$ -	$ 421,668
Funds held by trustee				
U.S. government securities	75,458	-	-	75,458
Money market mutual funds	25,948	-	-	25,948
	$ 101,406	$ -	$ -	$ 101,406

The following table summarizes fair value measurements at September 30, 2010 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	$ 933	$ -	$ -	$ 933
Bonds and U.S. Treasury Notes	-	121,988	-	121,988
Marketable equity securities	45,360	-	-	45,360
Private investment funds	-	78,999	-	78,999
Money market mutual funds	24,474	-	-	24,474
Mutual funds	94,133	-	-	94,133
	$ 164,900	$ 200,987	$ -	$ 365,887
Funds held by trustee				
U.S. government securities	112,340	-	-	112,340
Money market mutual funds	29,663	-	-	29,663
	$ 142,003	$ -	$ -	$ 142,003

In October 2009, new guidance related to the *Fair Value Measurement* standard was issued for estimating the fair value of investments in investment companies (limited partnerships) that have a calculated value of their capital account or net asset value ("NAV") in accordance with, or in a manner consistent with U.S. Generally Accepted Accounting Principles ("US GAAP"). As a practical expedient, the Medical Center is permitted under US GAAP to estimate the fair value of an investment at the measurement date using the reported NAV without further adjustment unless the entity expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The Medical Center's investments in private equity funds are fair valued based on most current NAV.

As a result of adopting the new guidance in 2010 for estimating fair value of investments, all investments previously classified in Level 3 have been reclassified as Level 2 since all the Medical Center's investments have the ability to redeem within 90 days, which is based upon the year-end recorded amounts. The Medical Center had no transfers from Level 2 to Level 1 in the current year.

The following table presents liquidity information for the financial instruments carried at net asset value at September 30, 2011.

	Investments Asset Value as of September 30, 2011		
Investment Type	**Net Asset Value** *(in thousands)*	**Redemption Frequency**	**Notice Period**
Bonds and U.S. Treasury Notes	$ 127,722	Daily - Monthly	2 - 30 Days
Private investment funds	115,924	Bi-Monthly - Monthly	3 - 45 Days
	$ 243,646		

The following table presents liquidity information for the financial instruments carried at net asset value at September 30, 2010.

	Investments Asset Value as of September 30, 2010		
Investment Type	**Net Asset Value** *(in thousands)*	**Redemption Frequency**	**Notice Period**
Bonds and U.S. Treasury Notes	$ 121,988	Daily - Monthly	2 - 30 Days
Private investment funds	78,999	Bi-Monthly - Monthly	3 - 45 Days
	$ 200,987		

There were no unfunded commitments as of September 30, 2011.

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 2011 and 2010, the Medical Center reported recognized losses of approximately $3,313,000 and $453,000, 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)	**2011**	**2010**
Less than one year	$ 7,882	$ 7,610
One year to five years	5,162	7,357
More than five years	6,000	7,600
	19,044	22,567
Less discounts and allowance for uncollectible accounts	(4,994)	(5,225)
Net contributions receivable	$ 14,050	$ 17,342

Included in total gross contributions receivable is a single donor in the amount of $12,000,000. The original contribution from the donor in 2008 was $15,000,000, of which $3,000,000 was paid. Discount rates used to calculate the present value of contributions receivable ranged from 2.40% - 16.74%, depending upon the anticipated pledge fulfillment date.

6. Property, Plant and Equipment

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

(in thousands)	**Useful Life**	**2011**	**2010**
Land and improvements	5 - 40 years	$ 12,824	$ 10,903
Buildings	15 - 45 years	169,571	167,611
Building and leasehold improvements	5 - 40 years	337,599	302,105
Fixed equipment	5 - 25 years	58,533	58,507
Major movable equipment	3 - 20 years	321,895	301,304
Leased buildings and equipment	15 - 20 years	219,496	219,496
Construction in progress		43,054	86,842
		1,162,972	1,146,768
Accumulated depreciation and amortization		(708,388)	(645,106)
Property, plant and equipment, net		$ 454,584	$ 501,662

Depreciation and amortization expense amounted to $63,282,000 and $66,583,000 for the years ended September 30, 2011 and 2010, 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 has capitalized interest in the amount of $31,514,000 and $26,044,000 for the years ended September 30, 2011 and 2010, respectively.

7. Other Noncurrent Assets

Other noncurrent assets consist of the Medical Center's investments in Medical Research Realty Trust, the 650 Albany Street Trust, Biosquare Realty Trust, NEIDL (Note 22), 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, Biosquare Realty Trust, 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. NMTC is a program of the Community Development Financial Institutions Fund ("CDFI Fund"), a bureau of the United States Treasury. The NMTC program awards tax incentives to private sector investors who provide investment capital to entities that create economic growth and jobs in distressed neighborhoods. Investors receive a tax credit against federal income taxes over a seven-year period.

In 2005, the Medical Center was the beneficiary of an allocation of NMTC that was awarded to Affirmative Investments, Inc. These NMTC and federal historic tax credits were used as part of a financing package to reduce the cash required by the Medical Center to rehabilitate the BCD Building. The financing required the Medical Center to loan approximately $5,800,000 and $6,100,000 to a third party relating to project costs of $16,000,000 to perform building improvements on the BCD building. The $5,800,000 is recorded as a note receivable at September 30, 2011 but it 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 was repaid to the Medical Center by a third party; however the interest is still outstanding. The loans have an interest rate of 5.12% and have accrued interest of $2,007,000 and $1,948,000 as of September 30, 2011 and 2010, respectively. As of September 30, 2011 and 2010, 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 $1,472,000. The Medical Center has calculated that the net present value of acquiring the interest of all investors totals $1,056,000, which the Medical Center recorded as long-term assets and liabilities for the years ended September 30, 2011 and 2010.

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. The $11,600,000 loan is recorded as other non-current assets at September 30, 2011 and 2010 and it 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 loan has an interest rate of 3.5% and has been recorded as notes receivable with accrued interest of $116,000 as of September 30, 2011 and 2010. The $9,000,000 was repaid to the Medical Center by a third party. As of September 30, 2011 and 2010, the Medical Center recorded $2,276,000 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 $1,654,000. The Medical Center has calculated that the net present value of acquiring the interest of all investors totals $1,125,000, which the Medical Center recorded as long-term assets and liabilities for the years ended September 30, 2011 and 2010.

During 2008, the Medical Center loaned $53,667,000 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, 2011 and 2010 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 3.85%, and has been recorded as notes receivable as of September 30, 2011 and 2010, with accrued interest of $5,939,000 and $4,225,000, respectively. The loan from the Medical Center was combined with a third party capital contribution in the amount of $16,333,000 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 $2,917,000 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 $2,917,000 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 $46,697,000 and $24,000,000, respectively. In these two financing transactions, the Medical Center provided loans of $33,582,000 and $19,517,000 with the capital contribution of $14,715,000 and $4,483,000 provided by a third party. These loans of $33,582,000 and $19,517,000 have an interest rate of 3.00% and have accrued interest of $2,162,000 and $1,212,000, respectively, as of September 30, 2011. In the second round of NMTC financing, the Medical Center also entered into an additional loan in the amount of $472,000 with an interest rate of 3.00%. Accrued interest of $30,000 and $20,000 related to this loan has been recorded as of September 30, 2011 and 2010, respectively. All loans are recorded as notes receivable as of September 30, 2011 and 2010. 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 $46,234,000 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.

8. Long-Term Debt

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

(in thousands)	**Interest Rate**	**2011**	**2010**
Massachusetts Development Finance Agency			
Revenue Bonds Series B	4.00% - 5.75%	$ 245,175	$ 245,175
Revenue Bonds Series A	5.00% - 5.25%	119,970	124,640
ECMF Series A Bonds	5.85% - 6.45%	10,500	11,300
Series O - Tax Exempt (Garage)	varies	11,679	12,108
Series O - Taxable (Garage)	varies	3,638	3,792
		390,962	397,015
Less current portion of long-term debt		(7,001)	(6,027)
Less revenue Bonds Series B discount		(6,968)	(7,063)
		$ 376,993	$ 383,925

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. On October 1, 2010 (the "Effective Date") pursuant to certain provisions of Chapter 240 of the Acts of 2010 of the Massachusetts Legislature, signed into law by the Massachusetts Governor on August 5, 2010 (the "Legislation") the Authority was merged into the Massachusetts Development Finance Agency ("MassDevelopment"). Under the Legislation, among other matters in connection with the merger, (i) on the Effective Date, the Authority is dissolved, and (ii) on and after the Effective Date, the Authority's rights, powers and duties, and properties shall be exercised, performed, owned and held by MassDevelopment, and any and all obligations and liabilities of the Authority shall become obligations and liabilities of MassDevelopment.

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 bonds were issued to finance the cost of refinancing Series C bonds, construction of a research building and routine capital expenditures. The interest rate on the Series A Revenue Bonds ranges from 5.00% to 5.25% based on the bonds' maturities. Principal and sinking fund payments will be made annually from 2012 to 2029 and range from $4,920,000 to $8,955,000. The bonds are redeemable at the option of the Medical Center at July 1, 2010 and thereafter at 100%.

The Amended and Restated Master Trust Indenture covers the obligations of both Series B and Series A Revenue Bonds.

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 matured 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 $800,000 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 matured 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.

Included in the Medical Center's debt is approximately $15,317,000 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.

On August 14, 2009, the Medical Center refinanced the two Series M loans to Series O loans. RBS Citizens provided a Federal Home Loan Bank wrap (AAA rated) for the two Letters of Credit. The term and payment schedule for the loans did not change. The interest rates at September 30, 2011 were 0.12% and 0.23% for the tax exempt and taxable loans, respectively.

RBS Citizens, N.A. provides two letters of credit totaling $15,728,000. There are no drawings under the Letters of Credit as of September 30, 2011. The Letters of Credit supporting the Series O-1 and O-2 expire on October 2, 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 Revenue Bonds, the Series A Revenue Bonds, the ECMF Series A Bonds 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.

(in thousands)	**September 30, 2011**	**2010**
Construction fund	$ 51,517	$ 91,280
Debt service fund	6,914	7,641
Debt service reserve funds	35,481	35,187
Accrued interest receivable	857	1,259
Workers compensation reserve funds	6,300	6,300
Other held funds	337	336
	$ 101,406	$ 142,003

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)	
Year Ending September 30,	
2012	$ 7,001
2013	7,346
2014	7,749
2015	8,498
2016	8,866
Thereafter	351,502
	$ 390,962

The fair value of long-term debt was approximately $366,825,000 and $393,029,000 at September 30, 2011 and 2010, respectively.

9. Obligations Under Capital Leases

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

(in thousands)	**2011**	**2010**
City of Boston	$ 66,027	$ 74,496
Other	449	672
Less current portion	(9,058)	(8,692)
	$ 57,418	$ 66,476

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 14) 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 14). 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.

As of September 30, 2011 and 2010, assets under capital lease agreements amounted to approximately $219,496,000 and $219,496,000, respectively, with accumulated amortization of $157,182,000 and $147,989,000, 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)	
Years Ending September 30	
2012	$ 11,728
2013	11,620
2014	11,121
2015	11,097
2016	11,024
Thereafter	19,708
Total minimum lease payments	76,298
Less amount representing interest	(9,822)
Present value of minimum lease payments	66,476
Less current portion	(9,058)
	$ 57,418

10. Operating Lease Commitments

The Medical Center estimated future minimum lease obligations are as follows:

(in thousands)	**Lease Obligations**
Years Ending September 30	
2012	$ 7,601
2013	6,997
2014	6,775
2015	6,737
2016	6,682
Thereafter	29,573
	$ 64,365

The Medical Center records rent expense on a straight-line basis over the life of the lease and records accrued rent as the difference between rent expense and actual payments made. As of September 30, 2011 and 2010, the accumulated difference between rent expense and amounts paid amounted to $2,065,000 and $0, respectively, and is included in accounts payable and accrued expenses and long-term liabilities on the balance sheet.

11. 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)	2011	2010
Temporarily restricted		
Accumulated realized and unrealized gains	$ 162,795	$ 173,902
City of Boston Grants (Note 14)	63,893	71,775
Funds for the purchase of equipment and capital improvements	31,298	97,642
Other restricted purposes	43,983	43,425
	$ 301,969	$ 386,744
Permanently restricted		
Investments to be held in perpetuity	$ 16,353	$ 16,353

12. Endowments

The Medical Center's endowment consists of approximately 167 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 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 certain factors in making a determination to appropriate or accumulate endowment funds. These 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, 2011, 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:

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 140,398	$ 16,353	$ 156,751
	$ -	$ 140,398	$ 16,353	$ 156,751

Changes in endowment net assets for the year ended September 30, 2011, consisted of the following:

(in thousands)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets at September 30, 2010	$ -	$ 148,128	$ 16,353	$ 164,481
Investment return				
Investment income	-	6,043	-	6,043
Net unrealized depreciation	-	(7,568)	-	(7,568)
Total investment return	-	(1,525)	-	(1,525)
Appropriation of endowment assets for expenditures	-	(6,205)	-	(6,205)
	-	(6,205)	-	(6,205)
Endowment net assets at September 30, 2011	$ -	$ 140,398	$ 16,353	$ 156,751

As of September 30, 2010, the endowment net asset composition by type of fund consisted of the following:

(in thousands)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$ 148,128	$ 16,353	$ 164,481
	$ -	$ 148,128	$ 16,353	$ 164,481

Changes in endowment net assets for the year ended September 30, 2010, consisted of the following:

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2009	$ -	$ 144,659	$ 16,353	$ 161,012
Investment return				
Investment income	-	4,089	-	4,089
Net unrealized depreciation	-	16,784	-	16,784
Total investment return	-	20,873	-	20,873
Appropriation of endowment assets for expenditures	-	(17,404)	-	(17,404)
	-	(17,404)	-	(17,404)
Endowment net assets at September 30, 2010	$ -	$ 148,128	$ 16,353	$ 164,481

13. 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 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 or in the regulations governing its administration may have an adverse impact on the Medical Center.

14. 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 9) is outstanding. The Base Assistance Grant payments were $10,750,000 in both 2011 and 2010. For each year as long as the FHA note is outstanding, the payment is expected to be $10,750,000. As discussed in Note 9, 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 $63,893,000 and $71,775,000 as of September 30, 2011 and 2010, respectively. These amounts are included in grants receivable and temporarily restricted net assets on the balance sheet at September 30, 2011 and 2010. The accretion of the discount on these grants of approximately $2,868,000 and $3,174,000 for the years ended September 30, 2011 and 2010, 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.

15. 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 $15,113,000 and $14,974,000 for the years ended September 30, 2011 and 2010, 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 $164,000 and $225,000 as of September 30, 2011 and 2010, respectively. The net periodic benefit cost recorded on the Plan amounted to ($33,000) and ($25,000) for the years ended September 30, 2011 and 2010, 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 thousands)	**2011**	**2010**
Accumulated benefit obligation	$ 103,479	$ 88,041
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	$ 101,889	$ 87,352
Service cost	5,479	5,277
Interest cost	5,051	4,769
Actuarial loss	6,480	5,337
Benefits paid	(1,296)	(846)
Projected benefit obligation at end of year	$ 117,603	$ 101,889
Change in plan assets		
Fair value of plan assets at beginning of year	$ 65,329	$ 54,076
Actual return on plan assets	434	6,299
Employer contributions	6,000	5,800
Benefits paid	(1,296)	(846)
Fair value of plan assets at end of year	$ 70,467	$ 65,329
Reconciliation of funded status		
Projected benefit obligation	$ 117,603	$ 101,889
Fair value of plan assets	70,467	65,329
Funded status	(47,136)	(36,560)
Amounts recognized in the balance sheet included within other long-term liabilities	$ (47,136)	$ (36,560)

The components of net periodic benefit cost for the years ended September 30, 2011 and 2010 are as follows:

(in thousands)	**2011**	**2010**
Service cost	$ 5,479	$ 5,277
Interest cost	5,051	4,769
Expected return on plan assets	(4,759)	(3,983)
Amortization of prior service cost	1	1
Recognized actuarial loss	2,224	2,232
Net periodic benefit cost	$ 7,996	$ 8,296
Weighted average assumptions used to determine the net periodic cost for the period just ended		
Discount rate	5.00%	5.50%
Long-term rate of return	7.00%	7.00%
Rate of compensation increase	4.00%	4.50%
Weighted average assumptions used to determine the benefit obligations		
Discount rate	4.50%	5.00%
Rate of compensation increase	3.50%	4.00%
Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
New net actuarial loss	$ 10,805	$ 3,021
Amortization of prior service cost	(1)	(1)
Amortization of net loss	(2,224)	(2,232)
	8,580	788
Amounts recognized in unrestricted net assets		
Net prior service cost	$ 4	$ 5
Net actuarial loss	38,256	29,675
	$ 38,260	$ 29,680

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 $1,300 and $3,580,000.

Pension Plan Assets

The pension plan weighted average asset allocation as of the measurement dates September 30, 2011 and September 30, 2010, is as follows:

	Target Allocation Fiscal Year Ending September 30, 2011	Percentage of Plan Assets at September 30, 2011	Percentage of Plan Assets at September 30, 2010
Asset category			
Equity Securities	55 %	54 %	58 %
Debt Securities	34	41	38
Other	11	5	4
	100 %	100 %	100 %

The fair value of pension plan assets as of September 30, 2011 is disclosed in the table below:

(in thousands)	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	$ 2,947	$ -	$ -	$ 2,947
Fixed income	2,749	22,928	-	25,677
Equities	6,732	33,444	-	40,176
Commodities	1,667	-	-	1,667
	$ 14,095	$ 56,372	$ -	$ 70,467

The fair value of pension plan assets as of September 30, 2010 is discussed in the table below.

(in thousands)	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	$ 1,337	$ -	$ -	$ 1,337
Fixed income	4,541	20,007	-	24,548
Equities	4,815	32,866	-	37,681
Commodities	1,763	-	-	1,763
	$ 12,456	$ 52,873	$ -	$ 65,329

The Medical Center contracts with a consulting firm for financial consulting services for the Pension Plan. The consultants provide 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, 2012	
Expected employer contributions	$ 6,400,000
Estimated future benefit payments reflecting expected future service for the fiscal year(s) ending September 30	
2012	$ 2,301,000
2013	2,731,000
2014	3,329,000
2015	3,947,000
2016	4,493,000
2017 - 2021	35,191,000

The Medical Center contributed $6,000,000 and $5,800,000 to the Pension Plan for the years ended September 30, 2011 and 2010, respectively. The Medical Center plans to make any necessary contributions during the upcoming fiscal 2012 year to ensure the Pension Plan continues to be adequately funded during the current market conditions.

16. 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, 2011 and 2010 was as follows:

	2011	2010
Medicare	18 %	17 %
Medicaid	23	23
HMOs	30	31
Commercial	11	10
Blue Cross	7	6
Commonwealth Care	3	3
Other	1	3
Self-Pay	7	7
	100 %	100 %

The Medical Center records an allowance for doubtful accounts (credit losses) for the following other accounts receivable balances at September 30, 2011:

(in thousands)	Receivable Balance	Allowance for Doubtful Accounts
FICA reimbursement for resident payments	$ 21,907	$ -
Other hospitals and health centers	5,119	2,439
New market tax credits	11,568	-
Outside contracts	12,884	792
Contributions receivable	7,640	1,881
Other	216	141
	$ 59,334	$ 5,253

These receivables represent current amounts from the other accounts receivable balance. Management regularly assesses the adequacy of the allowance for doubtful accounts by performing ongoing evaluation of the balances, including such factors as the economic environment, risks associated with each receivable, the financial condition of specific borrowers and, where applicable, the existence of any guarantees or indemnifications.

Factors also considered by management when performing its assessment, in addition to general economic conditions and the other factors described above, include, but were not limited to, a detailed review of the aging of receivables and review of cash receipts in current year compared against prior year allowance for doubtful accounts. The level of the allowance is adjusted based upon the results of management's analysis.

Changes in the allowance for doubtful accounts for the year ended September 30, 2011 were as follows:

(in thousands)	
Beginning balance, October 1, 2010	$ 14,440
Recoveries	(5,098)
Net charge-offs	(4,089)
Ending balance, September 30, 2011	$ 5,253

17. Related Party Transactions

The Foundation and the Medical Center have significant transactions with each other for operating purposes. During the years ended September 30, 2011 and 2010, the Medical Center provided funding of approximately $103,287,000 and $99,779,000, 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 $17,232,000 and $15,902,000 at September 30, 2011 and 2010, respectively. In addition, the Medical Center owed the Foundation $19,454,000 and $8,797,000 at September 30, 2011 and 2010, respectively, and the amounts due are included in current portion of due to related parties.

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 $91,363,000 and $80,084,000 for the years ended September 30, 2011 and 2010, respectively, and is included in net patient service revenue. At September 30, 2011, BMCHP owed the Medical Center $23,326,000 and at September 30, 2010, the Medical Center owed BMCHP $20,441,000. In addition, BMCHP owed the Medical Center $9,726,000 and $8,088,000 at September 30, 2011 and 2010, respectively, and the amounts due are included in patient accounts receivable. During the year ended September 30, 2011 BMCHP approved a net asset transfer of $23,000,000 to BMC, which is included in due from related parties on the balance sheet and an increase in unrestricted net assets in the statement of operations and changes in unrestricted net assets.

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 $2,000,000 and $0 for the years ending September 30, 2011 and 2010, respectively. The Medical Center has $12,999,000 and $13,268,000 of prepaid premiums and retrospective premium credits that were prepaid by the Medical Center to BMCIC at September 30, 2011 and 2010, respectively.

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, 2011 and 2010, respectively. At September 30, 2011 and 2010, respectively, there were no premiums owed to BMCIC of Vermont as all premiums written were paid prior to year-end.

The Medical Center and the BMC NAB Business Trust have significant transactions with each other relating to the construction of the Shapiro Ambulatory Care Center. Pursuant to the note and loan agreement, dated May 1, 2008, the Medical Center loaned the BMC NAB Business Trust $16,640,000 in 2010 and $10,758,000 in 2011 for the construction of the facility.

The Medical Center is affiliated with several community health centers. At September 30, 2011 and 2010, the Medical Center had loaned a total of $6,540,000 and $7,200,000, 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.

18. Functional Expenses

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

(in thousands)	2011	2010
Patient care	$ 701,862	$ 734,428
Medical education	69,200	81,481
Research, sponsored programs and community health services	99,766	97,305
General and administrative	134,748	127,559
	$ 1,005,576	$ 1,040,773

19. Governmental Subsidies

The Medical Center receives 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.

Public Service Hospital Safety Net Care Payments
Pursuant to the Special Terms and Conditions of the MassHealth Medicaid Section 1115 demonstration waiver the Executive Office of Health and Human Services (“EOHHS”) paid the Medical Center $52,000,000 from the Medical Assistance Trust Fund in fiscal years of 2010 and 2011.

Transitional Relief Payments
On March 1, 2010, the Commonwealth submitted a request to amend its Medicaid Section 1115 demonstration waiver. That request was approved by the Centers for Medicare and Medicaid Services (“CMS”) on September 30, 2010. In the amendment the Commonwealth outlined its intention to make transitional relief payments to the Medical Center in the amount of $180,000,000. The Medical Center entered into a memorandum of understanding with the Commonwealth and received $180,311,000 in two installments during 2011. The Medical Center has recorded $90,000,000 in 2010 and $90,311,000 in 2011.

20. 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 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. On December 20, 2010, the Massachusetts Superior Court dismissed the lawsuit. The court ruled that neither state nor federal law authorizes the courts to review the payment rates set by the state's secretary of health and human services. The Medical Center appealed the court's decision to the Massachusetts Appeals Court and the Massachusetts Supreme Judicial Court has decided, on its own, to hear the appeal itself. Failure to resolve the issues underlying the Medical Center's lawsuit could have an adverse impact on the Medical Center.

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. In February and March, 2011, all claims in both the federal and state cases were dismissed. The action is still ongoing as of September 30, 2011. 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.

21. 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.

22. National Emerging Infectious Diseases Laboratory ("NEIDL")

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 each provided $27,927,000 toward construction, and received a 50% equity interest in the venture. As such, both parties will share equally in the future operating activities of the laboratory. The NIH reimbursement was recorded as an increase to temporarily restricted net assets. On May 1, 2010, Boston Medical Center issued a letter notifying Boston University that the Medical Center elected to withdraw from further participation in the NEIDL at Boston University Medical Center effective as of May 1, 2011. As a result of the withdrawal, the Medical Center reversed the investment and temporarily restricted net assets recorded in previous periods. The Medical Center's 50% equity interest associated with the amounts reimbursed by NIH has been recorded as an investment in other noncurrent assets of $0 and $68,015,000 at September 30, 2011 and 2010, respectively.

In 2011 Boston Medical Center and Boston University agreed to contribution repayment terms whereas Boston University owes Boston Medical Center the total principal of $29,064,000. Boston University will make five annual payments of $5,813,000 plus 2% interest on the outstanding balance due.

23. Subsequent Events

The Medical Center has assessed the impact of subsequent events through February 3, 2012, 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.