Boston Medical Center

Financial Statements

September 30, 2014 and 2013

Boston Medical Center
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September 30, 2014 and 2013

Independent Auditor's Report

To the Board of Trustees of
BMC Health System, Inc.

We have audited the accompanying financial statements of Boston Medical Center (the "Medical Center"), which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of operations, changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 from material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boston Medical Center at September 30, 2014 and 2013, and the results of its operations, changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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 18, 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 4, 2015

Boston Medical Center
Balance Sheets
September 30, 2014 and 2013

(in thousands)	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 126,020	$ 139,834
Patient accounts receivable, less allowance of $28,916 and $22,604 in 2014 and 2013	87,124	67,210
Other accounts receivable, less allowance of $5,395 and $5,722 in 2014 and 2013	40,768	39,038
Current portion of grants receivable, less allowance of $480 and $3,796 in 2014 and 2013	28,880	25,812
Current portion of estimated receivable for final settlements with third-party payors	36,583	17,284
Current portion of due from related parties	98,774	100,774
Inventories	6,201	5,490
Prepaid expenses and other current assets	11,838	7,147
Insurance recoveries receivable	34,013	35,282
Current portion of funds held by Trustees	8,842	21,720
Total current assets	479,043	459,591
Assets limited as to use		
Board-designated investments	343,704	359,240
Funds held by trustees	49,725	49,474
Donor-restricted investments	330,761	306,483
Total assets limited as to use	724,190	715,197
Property, plant and equipment, net	556,070	456,347
Long-term portion of due from related parties	30,570	30,570
Grants receivable, less current portion	7,921	18,098
Other noncurrent assets	168,320	182,650
Total assets	$ 1,966,114	$ 1,862,453
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 151,372	$ 127,955
Deferred revenue	19,436	18,348
Current portion of long-term debt and capital leases	18,758	17,616
Professional liability claims	34,013	35,282
Current portion of due to related parties	69,445	51,174
Total current liabilities	293,024	250,375
Long-term liabilities		
Estimated final settlements with third-party payors	55,764	62,444
Obligations under capital leases	8,187	18,687
Long-term debt	354,782	363,360
Other long-term liabilities	64,476	59,870
Total liabilities	776,233	754,736
Commitments and contingencies		
Net assets		
Unrestricted	829,496	771,252
Temporarily restricted	344,125	320,112
Permanently restricted	16,260	16,353
Total net assets	1,189,881	1,107,717
Total liabilities and net assets	$ 1,966,114	$ 1,862,453

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

Boston Medical Center
Statements of Operations
Years Ended September 30, 2014 and 2013

(in thousands)	**2014**	**2013**
Operating revenue		
Net patient service revenue, net of provision for bad debt ($42,645 in 2014 and $41,542 in 2013)	$ 964,265	$ 893,584
Grants and contract revenue	78,784	82,185
Other revenue	9,482	12,412
Net assets released from restrictions for operations	30,074	23,890
Total operating revenue	1,082,605	1,012,071
Operating expenses		
Salaries and wages and fringe benefits	506,548	482,941
Supplies and expenses	276,089	243,181
Institutional support (Note 18)	96,198	110,772
Depreciation and amortization	60,006	59,232
Interest expense	12,299	13,716
Research, sponsored programs and community health services	97,948	95,257
Total operating expenses	1,049,088	1,005,099
Income from operations	33,517	6,972
Nonoperating gains (losses), net		
Investment income (including other-than-temporary impairment losses of $1,171 and $1,316 in 2014 and 2013, respectively)	25,401	16,641
Fundraising costs and other	(3,415)	(3,570)
Total nonoperating gains	21,986	13,071
Excess of revenue over expenses	55,503	20,043
Other changes in unrestricted net assets		
Change in unrealized appreciation on investments	4,186	7,588
Net assets transfer from BMCHP	-	23,000
Other changes	(2,500)	-
Contributed capital asset	7,632	3,846
Net assets released from restrictions for property, plant and equipment	1,613	3,351
Pension related changes other than net periodic pension costs	(8,190)	25,801
Change in unrestricted net assets	58,244	83,629
Unrestricted net assets		
Beginning of year	771,252	687,623
End of year	$ 829,496	$ 771,252

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

Boston Medical Center
Statements of Changes in Net Assets
Years Ended September 30, 2014 and 2013

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at September 30, 2012	$ 687,623	$ 299,103	$ 16,353	$ 1,003,079
Increases (decreases) in net assets				
Excess of revenues over expenses	20,043	-	-	20,043
Investment income	-	11,876	-	11,876
Change in unrealized appreciation on investments	7,588	26,296	-	33,884
Contribution revenue	-	10,078	-	10,078
Net assets released from restrictions for operations	-	(23,890)	-	(23,890)
Net asset transfer from BMCHP	23,000	-	-	23,000
Contributed capital asset	3,846	-	-	3,846
Net assets released from restriction for property, plant and equipment	3,351	(3,351)	-	-
Pension related changes other than net periodic pension costs	25,801	-	-	25,801
Total increase in net assets	83,629	21,009	-	104,638
Net assets at September 30, 2013	771,252	320,112	16,353	1,107,717
Increases (decreases) in net assets				
Excess of revenues over expenses	55,503	-	-	55,503
Investment income	-	23,373	-	23,373
Change in unrealized appreciation on investments	4,186	9,204	-	13,390
Contribution revenue	-	23,030	-	23,030
Net assets released from restrictions for operations	-	(30,074)	-	(30,074)
Other changes	(2,500)	93	(93)	(2,500)
Contributed capital asset	7,632	-	-	7,632
Net assets released from restriction for property, plant and equipment	1,613	(1,613)	-	-
Pension related changes other than net periodic pension costs	(8,190)	-	-	(8,190)
Total increase (decrease) in net assets	58,244	24,013	(93)	82,164
Net assets at September 30, 2014	$ 829,496	$ 344,125	$ 16,260	$ 1,189,881

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

Boston Medical Center
Statements of Cash Flows
Years Ended September 30, 2014 and 2013

(in thousands)	2014	2013
Operating activities		
Change in net assets	$ 82,164	$ 104,638
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Accretion of discount on long-term grants	(997)	(1,403)
Depreciation and amortization	60,006	59,232
Restricted contributions	(8,706)	(3,933)
Donated securities received	(588)	(386)
Contribution returned to donor	1,799	-
Amortization of bond discount	133	126
Amortization of bond premium	(444)	(445)
City of Boston lease refinancing	(9,753)	(9,347)
Discount and allowance for contributions receivable	6,149	3,929
Net realized gains and change in unrealized appreciation on investments	(43,729)	(42,027)
Equity in net losses of joint ventures	1,509	799
Contributed capital asset	(7,632)	(3,846)
Increase in asset retirement obligation	918	956
Provision for bad debts	42,645	41,542
Pension related changes other than net periodic pension costs	8,190	(25,801)
Changes in operating assets and liabilities		
Grants receivable	8,106	10,687
Patient accounts receivable	(62,559)	(34,040)
Other current assets and liabilities	(13,865)	11,010
Other noncurrent assets and liabilities	855	7,916
Due to/from related parties	20,271	(36,147)
Estimated final settlements with third-party payors	(25,979)	25,015
Accounts payable and accrued expenses	18,788	(9,203)
Net cash provided by operating activities	77,281	99,272
Investing activities		
Investment in forgiveness loan	-	(1,000)
Investment in subsidiaries	(520)	(4,657)
Purchases of investments	(102,933)	(114,933)
Proceeds from sale of investments	150,547	121,982
Purchase of property, plant and equipment	(137,812)	(71,319)
Net cash used in investing activities	(90,718)	(69,927)
Financing activities		
Repayment of long-term debt and capital leases	(7,872)	(8,059)
Proceeds from restricted contributions	8,706	3,933
Proceeds from sales of donated securities	588	386
Contribution returned to donor	(1,799)	-
Net cash used in financing activities	(377)	(3,740)
(Decrease) increase in cash and cash equivalents	(13,814)	25,605
Cash and cash equivalents		
Beginning of year	139,834	114,229
End of year	$ 126,020	$ 139,834
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 18,673	$ 18,944
Property, plant, and equipment included in accounts payable	10,465	5,312
Conditional asset retirement obligations	585	621
Net fixed assets recognized related to conditional asset retirement obligations	(333)	(335)
Contributed securities	588	386

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

1. Organization

Boston Medical Center (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" or "COB") 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.

BMC's sole corporate member is BMC Health System, Inc. (the "System") a tax-exempt, nonprofit corporation that oversees the operation of BMC, Boston Medical Center Health Plan, Inc. ("BMCHP"), and various affiliates and associated services. The System was organized effective July 1, 2013.

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. The Medical Center and the Trustees of Boston University each appoint one-half of ECMF's directors. ECMF has been fully consolidated with the Medical Center as the Medical Center guarantees 100% of the debt of ECMF.

BMC Integrated Care Services, Inc. arranges 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. BMC Integrated Care Services, Inc. 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. BMC Integrated Care Services, Inc. contracts on behalf of the Medical Center, its physicians, and some community health centers. Effective December 1, 2014, the Medical Center replaced Faculty as BMC Integrated Care Services, Inc.'s sole corporate member.

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"), Boston University Affiliated Physicians, Inc. ("BUAP"), Gryant, Inc. or BMC NAB Business Trust.

The Medical Center is a corporate member of the Foundation (Boston University is the other member). The Foundation has a fiscal year-end of June 30. The Foundation had total net assets of $125,722,000 and $115,010,000 as of June 30, 2014 and 2013, respectively, and total assets of $213,048,000 and $206,052,000 as of June 30, 2014 and 2013, respectively. The Foundation had total operating revenue of $319,876,000 and $321,084,000 for the years ended June 30, 2014 and 2013, respectively, before any eliminations, and an increase in unrestricted net assets of $10,712,000 and $19,470,000 for the years ended June 30, 2014 and 2013, respectively.

BMCHP is a tax-exempt, nonprofit corporation established 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.

On March 16, 2012, BMCHP became licensed as a Health Maintenance Organization ("HMO") insurer by the New Hampshire Insurance Department. In April of 2012, the New Hampshire Department of Health and Human Services ("DHHS") selected BMCHP as one of three insurers to serve individuals qualifying for the New Hampshire Medicaid program. The DHHS Managed Care Program has been approved by the federal Centers for Medicare and Medicaid Services ("CMS"). Members became effective during December 2013.

On September 12, 2013, the Commonwealth Health Insurance Connector Board granted final approval for BMCHP to offer Qualified Health Plan ("QHP") ConnectorCare Plans in each of seven rating regions. These plans are a key component of the Affordable Care Act ("ACA") and members became effective on January 1, 2014.

BMCHP operates under the name Well Sense Health Plan ("Well Sense") in New Hampshire. BMCHP is an affiliate of BMC; effective July 1, 2013 BMC Health System Inc. replaced BMC as BMCHP's sole corporate member. BMCHP had total net assets of $178,962,000 and $222,397,000 as of September 30, 2014 and 2013, respectively, and total assets of $367,109,000 and $356,083,000 as of September 30, 2014 and 2013, respectively. BMCHP had total operating revenue of $1,716,336,000 and $1,368,277,000, and a decrease in unrestricted net assets of $43,435,000 and $7,326,000 for the years ended September 30, 2014 and 2013, respectively.

Effective May 30, 2002, the Medical Center and Faculty established BMCIC for purposes of providing professional and general liability insurance to each entity, its physicians and employees. BMCIC was incorporated under the laws of the Cayman Islands and has a Cayman Islands Unrestricted Class B insurer's license. BMCIC is owned 70% by the Medical Center and 30% by Faculty. BMCIC had a net income of $0 for the years ending September 30, 2014 and 2013. BMCIC had a total shareholder's equity of $120,000 and $120,000 and total assets of $111,478,000 and $107,158,000 as of September 30, 2014 and 2013, 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 $335,000 and $345,000 and total assets of $342,000 and $353,000 as of September 30, 2014 and 2013, respectively.

BUAP is a tax-exempt, nonprofit corporation that employs physicians in Boston and Norwood, Massachusetts, to provide health care services, perform medical and clinical research, and provide health and medical education programs. The Medical Center is BUAP's sole corporate member.

Gryant, Inc. was a Massachusetts corporation, wholly owned by the Medical Center, organized for real estate development activities. Gryant was the Managing Member of BCD Building, LLC and FGH Building LLC, until it transferred its interest in those companies to BMC on May 1, 2012 (BCD) and July 31, 2012 (FGH). FGH then dissolved effective June 12, 2013, Gryant voluntarily dissolved effective October 25, 2013; and BCD dissolved effective September 22, 2014.

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 a 90% shareholder of the trust, as well as trustee, and Genesys Research Institute, Inc., a tax-exempt, nonprofit corporation is a 10% shareholder.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The financial statements include the accounts of the Medical Center, ECMF, BMC Integrated Care Services, Inc. and UDF. All significant intercompany accounts and transactions have been eliminated. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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 $123,791,000 and $132,142,000 at September 30, 2014 and 2013, 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 excess of revenues over expenses unless the income or loss is restricted by donor or law. The change in unrealized appreciation on investments is recorded in the statement of operations as changes in 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, 2014 and 2013, 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, 2014 and 2013, 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 and equipment acquisitions are recorded at cost. Donated items are recorded at fair market value at the date of contribution. Depreciation, which includes the amortization of assets recorded under capital leases, is provided using the straight-line method over the estimated useful lives of the respective assets in accordance with guidance published by the American Hospital Association. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. Costs and the related allowance for depreciation are eliminated from the accounts when items are sold, retired or abandoned and any related gain or loss is recognized as a non-operating gain or loss in the statement of operations. The carrying value of property and equipment is reviewed if the facts and circumstances indicate that it may be impaired.

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 short-term receivables because such amounts are expected to be received or paid in the next twelve months. The Medical Center has also 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 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") related to grants. Advances received related to grants were $19,080,000 and $17,798,000 as of September 30, 2014 and 2013, respectively. Also included in deferred revenue is a rebate received in advance. The Medical Center recorded deferred revenue related to the rebate of $356,000 and $550,000 for the years ended September 30, 2014 and 2013, 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 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 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 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. 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
The Medical Center maintains medical malpractice insurance on a modified claims-made basis for residents, interns and physicians, the Medical Center and its employees, significantly all of which are provided by BMCIC. The deposit liability represents the provision on hand to cover liabilities that may arise under the primary professional liability, commercial general liability and excess professional liability policies issued by the company. Premiums are allocated to the deposit liability account as well as losses, investment income, operating expenses and unrealized holding gains/losses on investments. The reserve for losses and loss adjustment expenses and corresponding reinsurance recoverable represent management's best estimate, at a 70% confidence level discounted at 4%, of the BMCIC's liability under the excess loss coverage based on an actuarial projection of losses. 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.

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

The statement of operations includes the excess of revenue over expenses. Changes in unrestricted net assets which, consistent with industry practice, are excluded from the excess of revenue over expenses, include the change in unrealized appreciation on investments, contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purpose of acquiring such assets), pension related changes other than net periodic pension costs, and net asset transfers from BMCHP to the Medical Center. Additionally, changes in unrestricted net assets include the release of the investment in BMCHP and a contributed capital asset related to the BCD and FGH building transfers in fiscal year 2014 and 2013, respectively.

During fiscal year 2014, the Medical Center received favorable settlements from Medicaid, Medicare and the Health Safety Net fund ("HSN") related to prior years. Changes include Medicaid inpatient rate adjustment for $1,037,000, meaningful use incentive payments for electronic medical records of $706,000, Medicare prior period cost report settlements for $10,226,000 and HSN settlements for hospital-based physician free care payments for $20,480,000.

During fiscal year 2013, the Medical Center received favorable settlements from Medicaid, Medicare and the Health Safety Net fund ("HSN") related to prior years. Changes include Medicaid Pay for Performance payments for $1,000,000, Medicare prior period cost report settlements for $5,500,000 and HSN settlements for hospital-based physician free care payments for $20,200,000.

Favorable changes in prior year estimates from third-party payors recorded in the years ended September 30, 2014 and 2013 amounted to approximately $32,449,000 and $26,766,000, respectively.

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.

Other Revenue

Other revenue consists primarily of services rendered to other organizations under contractual agreements which include community health centers and area hospitals. Additionally included in other revenues are meaningful use payments received for meeting stage one of the CMS requirements and miscellaneous fees related to the sale of medical products.

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.

The Medical Center provided free care of $68,824,000 and $87,707,000 in 2014 and 2013, respectively. Such costs have been estimated based on the ratio of expenses (excluding bad debt expense) to establish patient service charges. 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.

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 amounts received were $66,065,000 and $63,091,000 for the years ended September 30, 2014 and 2013, respectively.

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, alternative investments, and conditional asset retirement obligations. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The fair value of the Medical Center’s financial instruments approximates the carrying amount reported in the balance sheet for cash and cash equivalents, investments, receivables and payables.

Income Taxes
The Medical Center, ECMF, and UDF, and BMC Integrated Care Services, Inc., are nonprofit corporations and have been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

Adoption of New Accounting Guidance
In July 2011, the FASB issued *Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts* for certain health care entities. Under the new guidance, bad debts relating to patient service revenue will be separately disclosed in the statement of operations and reported as a component of net patient service revenue. Bad debts associated with activities other than patient service revenue will continue to be reported as an operating expense. The standard is effective for fiscal years after December 15, 2012. The Medical Center adopted the provisions of ASU 2011-7 during the year ended September 30, 2013.

On October 1, 2013, the Medical Center adopted accounting standard, ASU 2012-05-*Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows.* This guidance requires the Medical Center to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the Medical Center. Management retrospectively applied the standard to all prior periods presented upon the date of adoption.

3. Assets Limited as to Use

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

	2014		2013	
(in thousands)	At Fair Value	Cost	At Fair Value	Cost
Cash and cash equivalents	$ 1,359	$ 1,359	$ 2,367	$ 2,367
Bonds and U.S. Treasury Notes	143,094	134,888	133,263	125,884
Private investment funds	222,359	180,331	235,519	204,980
Mutual funds	132,469	116,590	121,080	106,209
Marketable equity securities	120,867	87,759	116,984	83,927
Money market mutual funds	924	924	2,923	2,923
	621,072	521,851	612,136	526,290
Funds held by trustee	58,567	58,722	71,194	71,364
	$ 679,639	$ 580,573	$ 683,330	$ 597,654

At September 30, 2014 and 2013, respectively, the Medical Center recorded certain private investment funds of $53,393,000 and $53,587,000 using the cost method. For the private investment funds reflected in the balance sheet at cost, the difference (unrecorded net unrealized appreciation) between the value reported by the investment managers and the cost for these investments was $7,139,000 and $11,078,000 as of September 30, 2014 and 2013, 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 $222,359,000 and $235,519,000 at September 30, 2014 and 2013, respectively.

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

(in thousands)	**2014**	**2013**
Unrestricted		
Dividends and interest	$ 12,349	$ 14,102
Net realized gains on investments	13,052	2,539
Change in unrealized appreciation on investments	4,186	7,588
	29,587	24,229
Temporarily restricted		
Dividends and interest	6,086	6,272
Net realized gains on investments	17,287	5,604
Change in unrealized appreciation on investments	9,204	26,296
	32,577	38,172
	$ 62,164	$ 62,401

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

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 date. 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 the following three valuation techniques:

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, 2014 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	$ 1,359	$ -	$ -	$ 1,359
Bonds and U.S. Treasury Notes	-	143,094	-	143,094
Marketable equity securities	120,867	-	-	120,867
Private investment funds	-	222,359	-	222,359
Money market mutual funds	924	-	-	924
Mutual funds	132,469	-	-	132,469
	$ 255,619	$ 365,453	$ -	$ 621,072
Funds held by trustee				
U.S. government securities	$ 35,142	$ -	$ -	$ 35,142
Money market mutual funds	23,425	-	-	23,425
	$ 58,567	$ -	$ -	$ 58,567

The following table summarizes fair value measurements at September 30, 2013 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	$ 2,367	$ -	$ -	$ 2,367
Bonds and U.S. Treasury Notes	-	133,263	-	133,263
Marketable equity securities	116,984	-	-	116,984
Private investment funds	-	235,519	-	235,519
Money market mutual funds	2,923	-	-	2,923
Mutual funds	121,080	-	-	121,080
	$ 243,354	$ 368,782	$ -	$ 612,136
Funds held by trustee				
U.S. government securities	$ 35,228	$ -	$ -	$ 35,228
Money market mutual funds	35,966	-	-	35,966
	$ 71,194	$ -	$ -	$ 71,194

The Medical Center had no transfers from Level 2 to Level 1 in fiscal year 2014 and 2013.

The following is a description of the Medical Center's valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted prices in active markets that the Medical Center has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The Medical Center does not adjust the price for such assets and liabilities.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

The Medical Center's investments in bonds and U.S. Treasury notes and private investment funds are fair valued based on most current net asset value ("NAV").

The following table presents liquidity information for the financial instruments carried at net asset value at September 30, 2014.

(in thousands)	Investments Asset Value at September 30, 2014		
Investment Type	**Net Asset Value**	**Redemption Frequency**	**Notice Period**
Bonds and U.S. Treasury Notes	$ 143,094	Daily–Monthly	2–30 Days
Private investment funds	222,359	Bi-Monthly–Monthly	3–45 Days
	$ 365,453		

The following table presents liquidity information for the financial instruments carried at net asset value at September 30, 2013.

(in thousands)	Investments Asset Value at September 30, 2013			
Investment Type	**Net Asset Value**		**Redemption Frequency**	**Notice Period**
Bonds and U.S. Treasury Notes	$	133,263	Daily–Monthly	2–30 Days
Private investment funds		235,519	Bi-Monthly–Monthly	3–45 Days
	$	368,782		

There were no unfunded commitments as of September 30, 2014.

Externally managed marketable investments with fair value below cost are considered to be other-than-temporarily impaired and accordingly, the unrealized depreciation is recognized as realized losses through a write-down in the cost basis of these investments. All other 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. A similar write down is recorded when the impairment on these investments has been judged to be other-than-temporary. During 2014 and 2013, the Medical Center reported recognized losses of approximately $1,171,000 and $1,316,000, 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 and other noncurrent assets on the balance sheet. Contributions receivable, net, are summarized as follows as of September 30:

Unconditional promises expected to be collected in:

(in thousands)		**2014**		**2013**
Less than one year	$	5,584	$	4,344
One year to five years		16,969		7,598
More than five years		1,250		2,000
		23,803		13,942
Less: Discounts and allowance for uncollectible accounts		(6,149)		(3,929)
Net contributions receivable	$	17,654	$	10,013

Included in total gross contributions receivable is a single donor in the amount of $9,000,000. The original contribution from the donor in 2008 was $15,000,000, of which $6,000,000 was paid. Discount rates used to calculate the present value of contributions receivable ranged from 2.40%-6.00%, 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	2014	2013
Land		$ 11,292	$ 11,292
Land improvements	5–40 years	775	775
Buildings	15–45 years	203,490	186,393
Building and leasehold improvements	5–40 years	402,381	369,558
Fixed equipment	5–25 years	43,605	43,605
Major movable equipment	3–20 years	347,898	322,242
Leased buildings and equipment	15–20 years	118,408	118,408
Construction in progress		154,914	70,761
		1,282,763	1,123,034
Accumulated depreciation and amortization		(726,693)	(666,687)
Property, plant and equipment, net		$ 556,070	$ 456,347

Leasehold improvements are amortized over the lesser of the assets' estimated useful lives or the remaining lease term.

Depreciation expense amounted to $48,884,000 and $47,874,000 for the years ended September 30, 2014 and 2013, respectively. Amortization expense amounted to $11,122,000 and $11,358,000 for the years ended September 30, 2014 and 2013, respectively.

As of September 30, 2014 and 2013, assets under capital lease agreements amounted to approximately $118,408,000 and $118,408,000, respectively, with accumulated amortization of $97,299,000 and $86,177,000, respectively. Amortization expense is included with depreciation and amortization expense in the statement of operations.

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 $42,421,000 and $41,680,000 for the years ended September 30, 2014 and 2013, 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 23), 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 was recorded as a note receivable at September 30, 2013. The note receivable was considered permanent financing and was forgiven once the Medical Center took ownership in 2014. The $6,100,000 was repaid to the Medical Center by a third party and the interest was forgiven once the Medical Center took ownership of the BCD building. The loans had an interest rate of 5.12% and accrued interest of $0 and $1,768,000 as of September 30, 2014 and 2013, respectively. On May 1, 2012, the Medical Center purchased Gryant, Inc.'s interest in the BCD building for $300,000. On June 21, 2013, Gryant, Inc. transferred $297,000 ($300,000 less bank fees) to the Medical Center and the Medical Center reduced its interest in BCD. As of September 30, 2014 and 2013, the Medical Center recorded $0 and $1,303,000 as an investment in BCD.

The Medical Center entered into four put and call option agreements in connection with the redevelopment of the BCD building. On October 1, 2012 the Medical Center executed the put option agreement for BCD to Sovereign. The Medical Center paid Sovereign $1,455,000 for Sovereign's 99.9% interest in Affirmative NMTC Fund I LLC (the "Fund"). The Medical Center also executed its put option agreements with Affirmative, which is the remaining 0.01% interest in the Fund and with Antique BCD, LLC. After the puts were exercised, the Medical Center had 99.99% interest and control over the BCD Building. As of September 30, 2014, the Medical Center has one outstanding put with Affirmative New Markets LLC. In fiscal year 2014, the BCD Building and all other assets and liabilities were transferred from Gryant, Inc. to the Medical Center. The BCD building was recorded on the Medical Center's books at its net book value of $17,097,000. The lease between the Medical Center and Antique BCD, LLC was terminated as a result of the transaction. The Medical Center forgave its note and interest receivable and wrote down its investment in BCD, lease payable and all assets and liabilities transferred from Gryant, Inc., excluding the building, to zero. The entire transaction resulted in a contribution of a capital asset of $7,632,000 from Sovereign to the Medical Center, which is recorded as a change in net assets.

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 $11,654,000 loan was recorded as other noncurrent assets at September 30, 2012. The loan was considered permanent financing and was forgiven when the Medical Center took ownership in 2013. The loan had an interest rate of 3.5% and was recorded as notes receivable with accrued interest of $116,000 as of September 30, 2012. At September 30, 2013, this loan was forgiven. The $9,000,000 was repaid to the Medical Center by a third party in fiscal year 2010. On July 24, 2012, the Medical Center purchased Gryant Inc.'s interest in the FGH Building for $150,000.

The Medical Center entered into four put and call option agreements in connection with the redevelopment of the FGH Building. On March 1, 2013, the Medical Center executed the put option agreement for FGH to Sovereign and Affirmative, LLC. The Medical Center paid a total of $1,652,000 to Sovereign and Affirmative, LLC for their combined 100% interest in the Affirmative NMTC Fund II, LLC ("the Fund"). After the put option agreements were exercised, the Medical Center had 100% interest and control over the FGH Building. The FGH Building and all other assets and liabilities were transferred from Gryant, Inc. to the Medical Center. The FGH building was recorded on the Medical Center's books at its net book value of $17,849,000. The lease between the Medical Center and Affirmative LLC was terminated as a result of the transaction. The Medical Center forgave its note and interest receivable and wrote down its investment in FGH, lease payable and all assets and liabilities transferred from Gryant, Inc., excluding the building, to zero. The entire transaction resulted in a contribution of a capital asset of $3,846,000, from Sovereign to the Medical Center, which is recorded as a change in net assets.

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, 2014 and 2013 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, 2014 and 2013, with accrued interest of $11,494,000 and $9,570,000, 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 NMTCs 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 3.0% and have accrued interest of $4,375,000 and $2,490,000, respectively, as of September 30, 2014. 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 $67,000 and $51,000 related to this loan has been recorded as of September 30, 2014 and 2013, respectively. All loans are recorded as notes receivable as of September 30, 2014 and 2013. 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**	**2014**	**2013**
Massachusetts Development Finance Agency			
Revenue Bonds Series C	3.00%–5.25%	$ 98,635	$ 103,870
Revenue Bonds Series B	4.00%–5.75%	243,405	244,040
ECMF Series A Bonds	6.45%	7,600	8,600
Series O - Tax Exempt (Garage)	varies	10,229	10,741
Series O - Taxable (Garage)	varies	3,204	3,364
		363,073	370,615
Less: Current portion of long-term debt		(8,258)	(7,533)
Revenue Bonds Series B discount		(6,590)	(6,723)
Revenue Bonds Series C premium		6,557	7,001
		$ 354,782	$ 363,360

In July 2012, the Medical Center refunded the Massachusetts Development Finance Agency ("Mass Development") Revenue Bonds, Boston Medical Center Issue, Series A (1998) Bonds ("Series A Bonds") through the sale of $108,950,000 MassDevelopment, Series C Revenue 2012 Bonds ("Series C Revenue Bonds"). The principal amount outstanding of the Series A Bonds was $119,970,000. The interest rate on the Series C Revenue Bonds ranges from 3.00% to 5.25% based on the bonds' maturities. Principal and sinking fund payments will be made annually between 2013 and 2029 and range from $5,080,000 to $8,060,000.

In July 2008, the Medical Center issued through 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 2013 and 2038 and range from $545,000 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.

These financial statements represent the Obligated Group and three financially immaterial affiliates that are not members of the Obligated Group (UDF, ECMF, and the BMC Integrated Care Services, Inc.).

The Amended and Restated Master Trust Indenture covers the obligations of Series B Revenue Bonds, Series C Revenue Bonds and Series O Pool Loans.

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 $1,000,000 to $1,500,000. 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 a 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.

In October 2012, the Medical Center entered into a Line of Credit for short-term borrowings with a bank under which up to $25 million may be borrowed on such terms as outlined by the Amended and Restated Line of Credit Agreement. This Agreement will be renewed annually but can be withdrawn at the bank's option. The Medical Center has pledged certain board designated accounts to secure the line of credit. The assets of these accounts will collateralize borrowings against the line of credit. The Medical Center has not borrowed against the line of credit as of September 30, 2014.

Included in the Medical Center's debt is approximately $13,433,000 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. RBS Citizens, N.A. provides LOCs totaling $14,981,000. There are no drawings under the LOCs as of September 30, 2014. The LOC supporting the Series O-1 and O-2 will expire on December 31, 2017. 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, 2014 were 0.28% and 0.07% for the tax exempt and taxable loans, respectively.

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 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 LOCs.

The Medical Center has escrowed the following funds with bond trustees under the Series B Revenue Bonds, the Series C 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 funds 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)	**2014**	**2013**
Construction fund	$ 9,043	$ 21,809
Debt service fund	6,995	6,724
Debt service reserve funds	35,293	35,385
Accrued interest receivable	429	469
Workers compensation reserve funds	6,470	6,470
Other held funds	337	337
	$ 58,567	$ 71,194

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,	
2015	$ 8,258
2016	8,601
2017	9,225
2018	9,933
2019	10,433
Thereafter	316,623
	$ 363,073

The estimated fair value of long-term debt was approximately $390,753,000 and $375,270,000 at September 30, 2014 and 2013, respectively. The fair value of the long-term debt was determined by discounting the future cash flows of each instrument at rates that reflect rates currently observed in publicly traded debt markets for debt of similar terms to organizations with comparable credit risk. The inputs to the assumptions used to determine the estimated fair value are based on observable inputs and are classified as level 2. For variable rate debt, the carrying value is equal to the fair value.

9. Obligations Under Capital Leases

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

(in thousands)		**2014**		**2013**
City of Boston (forgivable)	$	18,098	$	27,851
City of Boston		589		919
Less: Current portion (forgivable)		(10,177)		(9,753)
Less: Current portion		(323)		(330)
	$	8,187	$	18,687

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 May 1, 2012, the City of Boston refinanced its 2002 Bonds through the issuance of General Obligation Bonds, 2012 Series C (the "2012 Bonds"). In conjunction with the refinancing, the Medical Center and PHC amended the lease agreement to reflect a reduction in monthly payments so that the Medical Center's obligation was equal to the debt service payment for the City of Boston's General Obligation debt. As the Medical Center continues to occupy the space and pays rent that is less than fair market value, the execution of this amendment resulted in a forgivable capital leased asset between the City of Boston and the Medical Center. The execution of the forgivable capital leased asset resulted in a reduction of the existing asset of $8,887,000 and a reduction in the obligation of $18,060,000. A gain of $9,211,000 was recorded on the amendment of the agreement due to a difference in amortization methods. The capital asset, the forgivable obligation and the gain will be amortized over the remainder of the lease term (through June 2016). The amended agreement also terminates the Medical Center's Base Assistance Grant receivable payments from the City of Boston.

Future minimum payments of the Medical Center's obligations under capital leases are as follows:

(in thousands)

Years Ending September 30,		
2015	$	323
2016		297
2017		-
2018		-
2019		-
Thereafter		-
Total minimum lease payments		620
Less: Amount representing interest		(31)
Present value of minimum lease payments		589
Less: Current portion		(323)
	$	266

10. Operating Lease Commitments

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

(in thousands)		Lease Obligations
Years Ending September 30,		
2015	$	7,500
2016		7,380
2017		6,861
2018		6,645
2019		6,628
Thereafter		11,052
	$	46,066

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, 2014 and 2013, the accumulated difference between rent expense and amounts paid amounted to $2,071,000 and $2,080,000, respectively, and is included in accounts payable and accrued expenses and other 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)	2014	2013
Temporarily restricted		
Accumulated realized and unrealized gains	$ 246,088	$ 219,597
City of Boston Grants (Note 14)	18,098	27,851
Funds for the purchase of equipment and capital improvements	49,365	31,802
Other restricted purposes	30,574	40,862
	$ 344,125	$ 320,112
Permanently restricted		
Investments to be held in perpetuity	$ 16,260	$ 16,353

12. Endowments

The Medical Center's endowment consists of approximately 205 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, 2014, 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)	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 196,468	$ 16,260	$ 212,728
	$ 196,468	$ 16,260	$ 212,728

Changes in endowment net assets for the year ended September 30, 2014, consisted of the following:

(in thousands)	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2013	$ 183,302	$ 16,353	$ 199,655
Investment return			
Investment income	15,496	-	15,496
Net unrealized appreciation	6,462	-	6,462
Total investment return	21,958	-	21,958
Appropriation of endowment assets for expenditures	(8,792)	-	(8,792)
Other changes	-	(93)	(93)
	(8,792)	(93)	(8,885)
Endowment net assets at September 30, 2014	$ 196,468	$ 16,260	$ 212,728

As of September 30, 2013, 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)	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 183,302	$ 16,353	$ 199,655
	$ 183,302	$ 16,353	$ 199,655

Changes in endowment net assets for the year ended September 30, 2013, consisted of the following:

(in thousands)	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2012	$ 162,727	$ 16,353	$ 179,080
Investment return			
Investment income	9,059	-	9,059
Net unrealized appreciation	19,284	-	19,284
Total investment return	28,343	-	28,343
Appropriation of endowment assets for expenditures	(7,768)	-	(7,768)
	(7,768)	-	(7,768)
Endowment net assets at September 30, 2013	$ 183,302	$ 16,353	$ 199,655

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. The Office of 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 promote the development of an urban healthcare system in the City of Boston.

On May 1, 2012 the City of Boston refinanced its 2002 Bonds through the issuance of General Obligation Bonds, 2012 Series C. In conjunction with the refinancing, the City of Boston terminated the agreement to provide the Base Assistance Grant to the Medical Center, as the FHA mortgage is no longer outstanding. As the Medical Center continues to occupy the space and pays rent that is less than fair market value, the execution of this amendment resulted in an "in-kind" rent receivable between the City of Boston and the Medical Center.

The net present value of the "in-kind" rent receivable is $18,098,000 and $27,851,000 is included in the grants receivable and temporarily restricted net assets on the balance sheet at September 30, 2014 and 2013, respectively. The "in-kind" rent receivable has been discounted using a rate of 4.26%. The accretion of the discount on the "in-kind" receivable is approximately $997,000 and $1,403,000 for the years ended September 30, 2014 and 2013, respectively, and is included in contribution revenue of temporarily restricted net assets in the statement of changes in net assets.

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 $16,716,000 and $16,390,000 for the years ended September 30, 2014 and 2013, 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 $133,000 and $155,000 as of September 30, 2014 and 2013, respectively. The net periodic benefit cost recorded on the Plan amounted to ($25,000) and ($31,000) for the years ended September 30, 2014 and 2013, 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)	**2014**	**2013**
Accumulated benefit obligation	$ 137,121	$ 117,939
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	$ 130,032	$ 139,747
Service cost	4,868	5,970
Interest cost	6,097	5,191
Actuarial loss (gain)	11,119	(18,781)
Benefits paid	(2,444)	(2,095)
Projected benefit obligation at end of year	$ 149,672	$ 130,032
Change in plan assets		
Fair value of plan assets at beginning of year	$ 101,075	$ 86,939
Actual return on plan assets	9,835	9,431
Employer contributions	6,800	6,800
Benefits paid	(2,444)	(2,095)
Fair value of plan assets at end of year	$ 115,266	$ 101,075
Reconciliation of funded status		
Projected benefit obligation	$ 149,672	$ 130,032
Fair value of plan assets	115,266	101,075
Funded status	(34,406)	(28,957)
Amounts recognized in the balance sheet included within other long-term liabilities	$ (34,406)	$ (28,957)

The components of net periodic benefit cost for the years ended September 30, 2014 and 2013 are as follows:

(in thousands)	**2014**	**2013**
Service cost	$ 4,868	$ 5,970
Interest cost	6,097	5,191
Expected return on plan assets	(7,237)	(6,272)
Amortization of prior service cost	1	1
Amortization of net loss	360	3,906
Net periodic benefit cost	$ 4,089	$ 8,796
Weighted average assumptions used to determine the net periodic cost for the period just ended		
Discount rate	4.75 %	3.75 %
Long-term rate of return	7.00 %	7.00 %
Rate of compensation increase	4.00 %	3.00 %
Weighted average assumptions used to determine the benefit obligations		
Discount rate	4.14 %	4.75 %
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 (gain)	$ 8,521	$ (21,939)
Amortization of prior service cost	(1)	(1)
Amortization of net loss	(360)	(3,906)
	$ 8,160	$ (25,846)
Amounts recognized in unrestricted net assets		
Net prior service cost	$ -	$ 1
Net actuarial loss	23,478	15,317
	$ 23,478	$ 15,318

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 $0 and $1,460,000.

Pension Plan Assets

The Pension Plan weighted average asset allocation as of the measurement dates September 30, 2014 and 2013, respectively, is as follows:

	Target Allocation Fiscal Year Ending September 30, 2014	Percentage of Plan Assets at September 30, 2014	2013
Asset category			
Equity securities	60 %	63 %	64 %
Debt securities	30	26	20
Other	10	11	16
	100 %	100 %	100 %

The fair value of pension plan assets as of September 30, 2014 is disclosed in the table below:

(in thousands)	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	$ 1,849	$ -	$ -	$ 1,849
Fixed income	1,122	28,162	-	29,284
Equities	7,747	65,086	-	72,833
Commodities	11,300	-	-	11,300
	$ 22,018	$ 93,248	$ -	$ 115,266

The fair value of pension plan assets as of September 30, 2013 is discussed in the table below.

(in thousands)	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	$ 2,938	$ -	$ -	$ 2,938
Fixed income	5,942	13,840	-	19,782
Equities	9,906	54,592	-	64,498
Commodities	13,857	-	-	13,857
	$ 32,643	$ 68,432	$ -	$ 101,075

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 BMC Health System, Inc.'s Investment Committee has oversight responsibility for the pension plan assets but has delegated responsibility to management the authority to review and select investment managers and investments. Management is required to notify the Investment Committee as its meetings of any actions that have been taken.

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, 2015	
Expected employer contributions	$ 6,800,000
Estimated future benefit payments reflecting expected future service for the fiscal year(s) ending September 30	
2015	$ 4,209,000
2016	4,703,000
2017	5,579,000
2018	6,347,000
2019	7,150,000
2020–2023	49,325,000

The Medical Center contributed $6,800,000 and $6,800,000 to the Pension Plan for each of the years ended September 30, 2014 and 2013, respectively. The Medical Center plans to make any necessary contributions during the upcoming fiscal year 2015 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, 2014 and 2013 was as follows:

	2014	2013
Medicare	15 %	18 %
Medicaid	22	22
HMO	40	32
Self Pay	5	8
Commercial	9	7
Blue Cross	5	6
Commcare	2	5
Other	2	2
	100 %	100 %

The Medical Center records an allowance for doubtful accounts (credit losses) for the following other accounts receivable balances at September 30, 2014:

(in thousands)	Receivable Balance	Allowance for Doubtful Accounts
Other hospitals and health centers	$ 5,015	$ 2,366
New market tax credits	23,425	-
Outside contracts	10,490	1,558
Contributions receivable	5,584	1,429
Other	1,649	42
	$ 46,163	$ 5,395

The Medical Center records an allowance for doubtful accounts (credit losses) for the following other accounts receivable balances at September 30, 2013:

(in thousands)	Receivable Balance	Allowance for Doubtful Accounts
FICA reimbursement for resident payments	$ 886	$ -
Other hospitals and health centers	5,942	2,404
New market tax credits	17,309	-
Outside contracts	13,290	1,545
Contributions receivable	4,344	1,570
Other	2,989	203
	$ 44,760	$ 5,722

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, 2014 and 2013 were as follows:

(in thousands)	2014	2013
Beginning balance at October 1	$ 5,722	$ 5,186
Recoveries	(1,039)	(21)
Net charge-offs	712	557
Ending balance at September 30	$ 5,395	$ 5,722

17. Net Patient Service Revenue and Allowance for Doubtful Accounts

Net patient service revenue before the provision for bad debts for the year ended September 30, 2014 and 2013 is summarized as follows:

(in thousands)	2014	2013
Patient	$ 108,203	$ 110,834
Third-party payers	1,665,899	1,501,647
Less: Contractual allowances	(767,192)	(677,355)
Less: Provision for bad debt	(42,645)	(41,542)
Net patient service revenue	$ 964,265	$ 893,584

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Medical Center analyzes past collection history and identifies trends to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews the data and models in evaluating the sufficiency of the allowance for doubtful accounts. Throughout the year, the Medical Center, after all reasonable collection efforts have been exhausted, will write off the difference between the standard rates (or discounted rates if negotiated) and the amounts actually collected against the allowance for doubtful accounts. In addition management monitors the write-offs against established allowances as of a point in time to determine the appropriateness of the underlying assumptions used in estimating the allowance for doubtful accounts.

Accounts receivable, prior to adjustments for doubtful accounts, is summarized as follows at September 30, 2014 and 2013:

(in thousands)	2014	2013
Patient	$ 13,992	$ 17,039
Third-party payers	384,357	312,515
Total	398,349	329,554
Reserve for contractual allowance	(282,309)	(239,740)
Reserve for doubtful accounts	(28,916)	(22,604)
Patient accounts receivable, net	$ 87,124	$ 67,210

18. Related Party Transactions

The Foundation and the Medical Center have significant transactions with each other for operating purposes. During the years ended September 30, 2014 and 2013, the Medical Center provided funding of approximately $93,174,000 and $107,655,000, 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 $44,782,000 and $35,818,000 at September 30, 2014 and 2013, respectively. In addition, the Medical Center owed the Foundation $53,858,000 and $38,689,000 at September 30, 2014 and 2013, respectively, and the amounts due are included in the 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 $133,526,000 and $118,714,000 for the years ended September 30, 2014 and 2013, respectively, and is included in net patient service revenue. At September 30, 2014 and 2013, BMCHP owed the Medical Center $0 and $23,043,000, respectively. In addition, BMCHP owed the Medical Center $15,902,000 and $12,540,000 at September 30, 2014 and 2013, respectively, and the amounts due are included in patient accounts receivable. BMCHP approved a net asset transfer of $0 and $23,000,000 to the Medical Center for the years ending September 30, 2014 and 2013, respectively.

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 were $4,489,000 and $4,100,000 for the years ending September 30, 2014 and 2013, respectively. The Medical Center has $36,229,000 and $31,311,000 of prepaid premiums and retrospective premium credits that were prepaid by the Medical Center to BMCIC at September 30, 2014 and 2013, respectively. The Medical Center recorded an insurance recovery receivable and a professional liability claims payable of $34,013,000 and $35,282,000 for the years ended September 30, 2014 and 2013, 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, 2014 and 2013, respectively. At September 30, 2014 and 2013, respectively, there were no premiums owed to BMCIC of Vermont as all premiums written were paid prior to year-end.

BUAP and the Medical Center have transactions with each other for operating purposes. During the year ended September 30, 2014 and 2013 the Medical Center provided funding of approximately $3,024,000 and $3,117,000, respectively, to BUAP for professional and support services. The Medical Center has various accounts receivable from BUAP which totaled approximately $4,294,000 and $4,411,000 at September 30, 2014 and 2013, respectively.

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.

The Medical Center is affiliated with several community health centers. At September 30, 2014 and 2013, the Medical Center had loaned a total of $5,180,000 and $6,000,000, 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 has occurred.

19. Functional Expenses

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

(in thousands)	**2014**	**2013**
Patient care	$ 753,129	$ 704,657
Medical education	68,892	67,092
Research, sponsored programs and community health services	97,948	95,257
General and administrative	129,119	138,093
	$ 1,049,088	$ 1,005,099

20. Governmental Subsidies

On December 20, 2011, Centers for Medicare and Medicaid Services ("CMS") approved a three-year Massachusetts Medicaid Waiver extension for the period of July 1, 2011 through June 30, 2014 that included Delivery System Transformation Initiative ("DSTI") potential funding of $103,553,000 annually for the Medical Center. These initiatives are designed as incentive payments to support investments in health care delivery systems that will support payment reform, and transition away from fee-for-service payments toward alternative payment arrangements that reward high-quality, efficient, and integrated systems of care. CMS has identified four categories for which funding authority is available. Participating hospitals must select a minimum number of projects from each category as outlined in the Master DSTI Plan. The four categories are: (1) development of a fully integrated delivery system; (2) improved health outcomes and quality; (3) ability to respond to statewide transformation to value-based purchasing and to accept alternatives to fee-for-service payments; and (4) population-focused improvements. The Medical Center has submitted a DSTI Plan with detailed projects to be implemented consistent with the categories outlined. CMS finalized the approval of the Medical Center's DSTI plan on June 20, 2012. The Medical Center has recorded $103,553,000 in fiscal year 2014 and 2013, respectively.

Other Safety Net Care Pool Supplemental Payments

The Medical Center receives additional supplemental payments from the State under the Special Terms and Conditions of the MassHealth Medicaid Section 1115 Demonstration, the Corporation meets the criteria for qualification for Public Service Hospital Safety Net Care Payments. The Medical Center has recorded $52,000,000 for years ending September 30, 2014 and 2013.

21. 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 in the healthcare industry, resulting in fines and penalties for noncompliance by individual health care providers.

In September 2009, a class action alleging wage and hour violations was filed against BMC. Management believes the case is similar to claims brought against many other hospitals nationally. In May 2014, the parties agreed to a settlement capped at $1.5 million, including attorney's fees and costs. In November 2014, the United States District Court for the District of Massachusetts granted final approval of the settlement. The District Court's approval deviated from the parties' proposed approval order only with regards to Plaintiff's attorney's fees (the District Court ordered lower fees). Plaintiffs have until mid-December 2014 to appeal the District Court's approval.

In July 2012, BMC, together with Boston University Affiliated Physicians, Inc., Boston University Medical Center Radiologists, Inc. and Trustees of Boston University (collectively, "BMC/BU" Defendants), were served with a lawsuit by plaintiffs Neurografix , Neurography Institute Medical Associates, Inc. and Image-Based Surgicenter Corporation, filed in the United States District Court for the District of Massachusetts. The complaint alleges that the BMC/BU Defendants infringed a patent held by the Plaintiffs through BMC's purchase and use of MRIs and other equipment manufactured by Philips, General Electric and BrainLab. The action was consolidated with similar suits and stayed (suspended) pending resolution of Plaintiffs' claims against the equipment manufacturers. Philips is indemnifying the BMC/BU defendants per BMC's contract with Philips. In October 2014, a settlement was reached between the Plaintiffs and Philips. Based on that settlement, Plaintiffs are expected to dismiss their action against the BMC/BU Defendants shortly.

22. 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.

23. 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 Boston 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.

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. The remaining balance owed to the Medical Center is $11,722,000 and $17,584,000 as of September 30, 2014 and 2013, respectively, and is included in other accounts receivable and other noncurrent assets on the balance sheet.

24. Subsequent Events

The Medical Center has assessed the impact of subsequent events through February 4, 2015, the date the audited financial statements were available for issuance, and has concluded that other than the note below, there were no such events that require adjustment to the audited financial statements or disclosure in the notes to the audited financial statements.

On December 18, 2014, BMC closed on the sale of three parcels to a for-profit entity. BMC will continue to lease and occupy a portion of the buildings that are included in the parcel for varying amounts of time, consistent with clinical and administrative needs, while it completes its campus redesign construction project. Additionally, the for-profit entity signed an agreement to purchase the Newton Pavilion and the Health Services Building in three years when construction is expected to be completed. At that time, all services in the Newton Pavilion will be relocated to the Menino Pavilion and the Yawkey Ambulatory Care Center.

In October 2014, BMC signed a purchase and sale agreement to sell the Newton Pavilion and the Health Services Building in three years to a for-profit entity. A portion of both of the Series B and Series C Revenue Bonds' proceeds were allocated to the Newton Pavilion and the Health Services Building. The eventual sale to a for-profit entity will cause the bonds to be taxable retrospectively to the date of issuance without remedial action. The portion of the bonds allocated to the Newton Pavilion were defeased as of January 23, 2015 to maintain the tax exempt status of Series B and Series C.

On December 23, 2014, BMC closed on a $95.0 million secured non-revolving credit loan with Citizens Bank, N.A. The proceeds of the non-revolving loan were used solely for the purpose of defeasing the bonds allocable to the Newton Pavilion. BMC expects to repay the non-revolving loan from the proceeds of the sale of the Newton Pavilion.