

WE'RE TAKING ON HEALTH CARE'S TOUGHEST CHALLENGES.



“Thank you, Jack.”



The year 2012 will be one of transition in the leadership of Partners HealthCare. Jack Connors, our Chairman of the Board, announced in 2011 that he would step down in July of this year. Jack has been our presiding officer since 1996, the overwhelming majority of the 18-year history of Partners. During that time our organization has been the beneficiary of his generosity, wisdom, and personal commitment to our mission. We are very pleased that Edward Lawrence, the current Vice-Chair of the Partners Board and past Chair of the Massachusetts General Hospital, will assume the role and responsibilities of Chairman.

At Partners, we are blessed with leaders at every level of our extraordinary organization, from the dedicated members of our support teams to the devoted nurses caring for our patients, to the gifted surgeons who are saving lives. Leadership takes many forms. Jack, as a volunteer, has been and always will be one of our most passionate leaders. We are delighted that he has agreed to continue with us in the role of Chairman Emeritus.

Jack is and forever will be a mentor. He has been instrumental in guiding us on our journey. Partners' first President and CEO Dr. H. Richard Nesson was the one who encouraged Jack to join the Board at Brigham and Women's Hospital in 1992. Dr. Nesson knew Jack's expertise could build bridges with the community. And Jack did just that; he learned from listening how important access to good care was for our communities. Thanks to Jack's leadership and his collaborative skills with business and political leaders in our state, Massachusetts is leading the nation in transforming health care for all. And now Jack is helping us explore the next chapter as we focus on improving the care we provide and making it affordable for our patients and society.

Jack is making a difference in the lives of others every day. The evidence of his success is all around us, but perhaps nowhere more visible than Camp Harbor View, a nurturing place of hope on Long Island in Boston Harbor for hundreds of young people who spend a few weeks in the summer away from the streets. His contributions to our community and to Partners are endless and never ending.

Jack's leadership has helped us to forge a path to strengthen our mission and maintain our standard of excellence that is recognized and respected not only at home, but around the world.

Thank you, Jack, from all of us at Partners HealthCare.

Gary Gottlieb, MD
President and CEO
Partners HealthCare

“The overarching challenge before us is to reduce costs while we improve care.”

The story of Partners HealthCare is truly appreciated through the voices of our patients and their families. When we hear about their experiences, we continually marvel at the dedication, talents, and ingenuity of our doctors and nurses – all of the care providers and support teams across our organization who do everything they possibly can to help a neighbor in a time of need.

This is the mission of Partners HealthCare.

We embrace our responsibility to deliver the highest quality of care, while we challenge ourselves to explore innovative ways to make that care affordable to society. We lead in groundbreaking research that links discovery directly to the lives of our patients. We teach the next generation who will carry forward the important lessons of leadership. We commit to these tenets with a promise to improve the health of all the communities we touch every day whether they are local or around the world.

In this year's annual report, we offer a sample of the inspiring ideas that the talented and dedicated men and women of the Partners HealthCare community have advanced over the last year that speak directly to the key concerns facing health care today. You will read how our teams, guided by a strategic vision, have explored inventive ways to improve the delivery of care that are coordinated, accessible, and cost efficient.

The depth and breadth of our extraordinary community of health care professionals, standing together, can provide the leadership to define a direction for our future that will benefit our patients, their families, and all the communities we serve.



Jack Connors, Jr.
Chairman
Partners HealthCare

Gary Gottlieb, MD
President and CEO
Partners HealthCare

Edward Lawrence
Vice Chairman
Partners HealthCare

“Partners has done amazing things to lower costs.”

— Stuart Altman, Brandeis University professor and nationally known health care authority

Voluntarily reduced by \$345 million what we charge health insurers.

Partners has taken an extraordinary step to deal with rising health care costs. We tossed out and renegotiated contracts with Blue Cross Blue Shield and Tufts Health Plan to help reduce the growth in health care premiums by \$345 million over the next four years. It is our expectation that patients and businesses across the state will benefit, as insurance companies pass along the savings.

We felt we needed to take concrete steps to lower health care costs without compromising our delivery of the highest quality of care for our patients. The savings were not easy to achieve, but we felt that we should be as creative in saving money as we have been in saving lives.

Our care redesign efforts have relied upon our doctors, nurses, technicians, specialists, and other medical leaders. We have developed new models of care, which we believe are better for patients and their families.



Boston is a pioneer again, in Medicare savings.

A longtime national leader in health care, Partners was selected by the federal government to pursue a new method of affordable care for Medicare patients called an Accountable Care Organization (ACO). An ACO is a payment and care reform model that brings together a group of carefully chosen health care professionals to provide care to a group of patients.

The Pioneer ACO at Partners is in line with a highly successful trial launched by Massachusetts General Hospital in 2006, under Timothy Ferris, MD, Gregory Meyer, MD, and Eric Weil, MD (left). The trial showed savings of \$2.65 for every \$1.00 spent; its success led to an expansion to Brigham and Women’s Hospital, Faulkner Hospital, and North Shore Medical Center.

As a Pioneer ACO, Partners is one of only 32 health care organizations in the country to receive federal financial incentives to transform how it cares for Medicare patients. Providers who band together will be required to meet quality standards while slowing cost growth through better care coordination.



WBUR Photo

Diabetes care redesign: Potential to save \$3 – 10 million.

Diabetes is a near-epidemic in this country and can often lead to kidney, liver, eye, and heart problems. It is just one of the conditions we have targeted for special attention; others include stroke, coronary disease, and colon cancer.

Sometimes you can make progress by wisely taking a step back. Alan Reiss, a type 2 diabetic, was not responding to expensive pills to manage his condition. “I kept telling my friends that I was going to die,” said Reiss. His doctor, Alan Cole, MD (pictured, foreground), tried a more traditional, albeit proven, treatment: insulin shots.

It worked.

At Partners, we estimate savings of \$3 million to \$10 million a year by moving from expensive brand-name pills to effective generics, or from pills to insulin injections.

Saving significant dollars in perioperative materials, the “stuff” of surgeries.

In an average week, more than 2,100 surgical procedures are performed at the hospitals in the Partners system. Because so many supplies and instruments are high cost, we have been able to achieve significant savings from manufacturers without compromising on what physicians need for the best possible patient care.



Lawrence Cohn, MD, of Brigham and Women’s Hospital, chairs a panel of expert physicians, nurses, and administrators from across the system; the panel reviews the “stuff” of operations, called perioperative supplies. These include sophisticated implantable medical devices such as heart valves and artificial knees, as well as more common sutures and sterile pads. Working with data drawn from our hospitals, Dr. Cohn’s panel has been able to identify opportunities for savings throughout our system.

The commitment to smarter use of supplies has many dividends, Dr. Cohn said: “If we improve efficiency and lower expenses in surgery, we can reduce the overall cost of care for our patients. At the heart of this goal is always to do what is best for our patients.”

How Partners is achieving cost savings and improving care.



Patient-centered medical homes: innovation at Brigham and Women's.

Patient-centered care is much discussed these days. BWH's Advanced Primary Care Associates on South Huntington Avenue in Jamaica Plain is putting it into practice. This new primary care practice connects each patient with a team that maps out a care plan that includes primary care, prevention, and wellness. Physician-led, patient-focused teams work with each patient and family; each patient is encouraged to take an active role in devising a self-care plan and sticking to it. Continuity of care is ensured by communication before, during, and after office visits to assess a patient's progress and well-being.

Bicentennial Scholars: investing in the promise of the future.

At an event celebrating the hospital's 200 years of commitment to the community, MGH introduced 26 local high school students selected as Bicentennial Scholars. The program honors students from Boston, Chelsea, and Revere in gaining admission to, succeeding at, and graduating from college.

While 70 percent of Boston high school graduates are admitted to two- or four-year colleges, many have a difficult time graduating, noted the hospital's head of Community Health Improvement, Joan Quinlan. "MGH designed it to be more than a scholarship program," she said. "In addition to an annual \$5,000 scholarship, the students will receive intense college coaching and SAT preparation, as well as continued support after they transition to postsecondary education."



Teaming up to redesign care for chronically ill patients after surgery.

A cardiac surgery innovation project at BWH is addressing the needs of post-cardiac surgical patients who are identified as "chronically critically ill." These complex patients require enhanced nursing, nutritional, respiratory, and rehabilitative support.

All relevant team members meet weekly to improve communication, determine if medical issues have been addressed, and decide when the patient is ready to leave the hospital. This translates into improved patient outcomes, cost savings, and better transitions to rehabilitation or a home setting.

McLean strengthens its women's mental health commitment.

Thanks to a generous donation from an anonymous donor, McLean Hospital is expanding its commitment to the mental health needs of women and girls by establishing the Women's Mental Health Initiative. Research has shown that gender is often a significant factor in the risk, prevalence, presentation, course, and treatment of mental disorders.

Likewise, at a time when public resources for mental health are being reduced, McLean is stepping up its help for adolescents with substance abuse problems and is reaching out to college students.

Honoring a great doctor with a great new center of care.

"Dr. Jerry Austen is the most important physician – really the most important person – to work at the MGH in the last 50 years and, in fact, one of the most important physicians in the 200-year history of this institution," said Roman DeSanctis, MD, director emeritus of clinical cardiology. Surgeon-in-chief emeritus and chair of the MGH Chiefs' Council, Dr. Austen has been a beloved and active leader in the MGH community for 57 years.

With 150 large private rooms for neuroscience and medical oncology patients, the Austen Inpatient Care Pavilion, located on the top five floors of the new Lunder Building, offers cutting-edge, patient- and family-centered care in a fitting tribute to its namesake.



W. Gerald Austen, MD, and his wife, Patricia, at the dedication of the Austen Pavilion in the new Lunder Building at MGH.

Coordinating care for patients at highest risk.

Newton-Wellesley Hospital is focused on the relatively small number of patients who account for a very large portion of total medical expenses. A care coordinator works with the primary care physician and the patient to develop a plan that guides the course of care. The coordinator gets to know the patient and family and works to become a trusted member of the care team, helping the patient effectively navigate the health care system and guiding the patient to take steps that limit the need for emergency care or hospitalization. About 1,600 high-risk patients with complex medical conditions and chronic illnesses have been identified as candidates for this new care model.



NSMC changes ER culture for the better.

With 92,000 visits a year, North Shore Medical Center operates one of the busiest emergency departments in the state. To more efficiently provide safe, consistent care, the Integrated Care and Rapid Evaluation (ICARE) team (left) at NSMC's Salem Hospital has created a new, team-based approach to treating emergency patients that has decreased significantly their length of stay.

The team consists of a physician, nurse, physician's assistant, unit secretary, nursing technician, and registration representative. "We documented every aspect of emergency care from our patients' and caregivers' perspective in extraordinary detail," said ER physician and team member Steven Browell, MD. The team then made changes to improve patient flow and the overall patient experience, while still providing the highest quality care.

How Partners is achieving cost savings and improving care.

The year of the transplant at the Brigham.

A Brigham and Women's surgical team, led by Bohdan Pomahac, MD, performed the nation's first full face transplant in March, 2011; it was one of three such operations at the hospital this year. More than 30 physicians, nurses, and other clinicians worked for 15 hours to replace the face of Dallas Wiens, a 25-year-old man from Texas who lost his face in a devastating accident. The procedure involved the lips, nose, facial skin, muscles of the face, and the nerves that power them and provide sensation.

BWH teams also performed their first bilateral hand transplant in 2011. In October, Richard Mangino, a quadruple amputee from Revere, received a new pair of hands in a 12-hour surgery. A team of 40 conducted the delicate surgery, transplanting multiple tissues including skin, tendons, muscles, ligaments, bones, and blood vessels on both the left and right forearms and hands. Simon Talbot, MD, of Plastic and Reconstructive Surgery, led the hand transplantation team.



"It's amazing to be given a life that you weren't sure for quite a while that you were ever going to have again," said Dallas Wiens.

Stamp of approval for reliable spinal surgeries.

Blue Cross Blue Shield of Massachusetts gave Newton-Wellesley Hospital a Blue Distinction designation for the reliability of its spine surgery program, achieving better overall outcomes for patients, fewer complications, and lower mortality rates. Louis Jenis, MD, spine surgeon at the hospital, said, "We are proud of our unique, multidisciplinary approach that provides our patients with a range of options to treat their spinal pain."

NWH also earned Blue Distinctions for hip and knee replacements, as well as for bariatric surgery.



Getting wise about aging patients.

In response to the shortage of nurses and the anticipated population explosion as baby boomers age, Jeanette Ives Erickson, RN, DNP, and Ed Coakley, RN, MSN, MA, MEd, and numerous colleagues throughout nursing, launched a new program called MGH AgeWISE.

Dr. Erickson (left), senior vice president for Patient Care and chief nurse at MGH, explained that older nurses were given special training in the unique care needs of older patients in the final years of life. "We were able to retain nurses who might have retired, and those who completed the training feel a new sense of purpose."

National recognition for using technology to control costs.

Partners caregivers have used a sophisticated health IT system to determine which patients should have diagnostic imaging tests such as MRIs and CT scans. While nationally the cost to Medicare for imaging roughly doubled from 2001 to 2009, Partners' imaging costs were flat from 2006 to 2009, and in some specialties even fell. Images per patient at Partners dropped 25 percent in that period.

In a *Bloomberg News* column Peter Orszag, former budget chief for the Obama administration, singled out Partners for its early adoption of electronic medical records (EMR). EMR, he said, is an effective tool to limit unnecessary imaging tests and curb runaway health care costs. In 2003, when the late Partners CEO James Mongan initiated "High Performance Medicine," only 10 percent of our physicians used EMR to improve quality and patient safety, and track a patient's history. Today that number is 100 percent.

Profiling cancer to improve treatment.

The Framingham Heart Study transformed cardiac care with far-reaching results. Researchers at BWH and Dana-Farber hope to do the same for cancer treatment through Profile, a study to create a database of genetic variations in cancer tumors. By understanding the genetic makeup of a tumor, doctors believe they can eventually tailor treatments to each patient's form of cancer. Patients must consent to their tissue to be tested and used in the study. By linking the data with the patient's electronic medical record, researchers can study which therapies are most effective against particular tumor types, and also design better clinical trials.

"For the first time, we have the opportunity to build a critical mass of genomic data that can be used to bring better treatments to patients," says Neil Lindeman, MD, director, Center for Advanced Molecular Diagnostics at BWH.



Creating change in real time: Innovation Units at MGH.

Twelve inpatient units at MGH are not only delivering quality care but are being used as testing grounds for new care-delivery models. These Innovation Units can assess new ideas as care is being delivered, meaning that positive changes can be adopted and spread quickly.

One of the new ideas is the creation of the job attending nurse, who will work along with the attending physician to ensure the timely delivery of quality care from admission to discharge. Other innovations include interdisciplinary team rounds to ensure that all caregivers can meet daily to address concerns and tackle obstacles, and a new discharge follow-up call program. "I'm looking forward to implementing the Discharge Follow-up Phone Call program on our unit. I can see where it would really help prevent readmissions," said Karen Rosenblum, RN, an attending nurse at MGH. "So many of these interventions are going to have a positive impact on patients and families."

How Partners is achieving cost savings and improving care.



Making strides on total joint replacements, a \$2.7 million savings plan.

A special MGH team looked at the current process for patients undergoing total hip or knee replacement, from initial visit in the surgeon's office to discharge, and identified areas where changes might reduce costs and improve efficiency.

Team members estimated that their redesign proposals could lead to \$2.7 million in annual savings. One proposal involved accelerated rehabilitation, providing physical therapy immediately following the procedure for certain patients to reduce their length of stay.

Martha's Vineyard Hospital brings new level of care to the island.

Patients at Martha's Vineyard Hospital have access to the island's first fixed MRI machine, new and private rooms, a spacious ER, and operating rooms with advanced technologies. MVH doctors affiliated with MGH can prescribe digitally, use the electronic medical record, and participate in quality initiatives for patients with diabetes and hypertension.



Nantucket to expand urgent care and streamline primary care.

Nantucket Cottage Hospital will expand its outpatient urgent care services and improve its primary care scheduling system to better serve patients during its busy summer season. An administrator will schedule interim physicians from MGH and other short-term staff, opening more appointment times, especially for urgent care patients who might otherwise go to the ER.

Going the extra miles to improve care and reduce waste.

A team of clinicians from Newton-Wellesley Hospital is using state-of-the-art techniques for improving patient flow, standardizing medical tasks, decreasing waste, and increasing efficiency. Team members worked with leaders of the Virginia Mason Institute in Seattle to study how patients move through the system, and developed streamlined work-flows. Physicians who are using the new "flow stations" have reported increased efficiency for patient and caregiver alike. Upcoming projects include the development of standardized work for medical assistants and better retrieval of patient data prior to visits.



Keeping high-risk patients healthy, and lowering costs.



Partners in Health might be best known for its vital work in Haiti, but its dedicated caregivers are also tackling important health issues at home. The PACT Project, a partnership between Partners in Health and BWH, is addressing health disparities in Boston neighborhoods.

Initially, PACT (Prevention and Access to Care and Treatment) provided community health workers to meet with high-risk HIV/AIDS patients in their homes, helping keep them on their medication and accompanying them to doctors' appointments. Now it has expanded to include patients in underserved areas who suffer from other chronic illnesses such as diabetes.

PACT has demonstrated strong success since its HIV/AIDS program began: 70 percent of patients have shown significant clinical improvement. By keeping patients healthier, PACT also lowers costs, with a 35 percent decrease in length of hospital stays, and a 60 percent drop in inpatient costs.

Shared appointments: NSMC patients get better together.

Terence Doorly, MD, a neurosurgeon and spine specialist at North Shore Medical Center is now seeing patients with similar neck and back injuries in small groups. He is the first Partners physician to offer "shared appointments."

"Patients like the shared appointments because not only can they get in to see me a lot sooner, they also get a full hour and a half of education," says Dr. Doorly, (right) who has been offering shared appointments at North Shore Physicians Group in Danvers. "They get the same level of personal attention that they would during an individual appointment, plus the added benefit of learning from the experiences of other patients."



During the appointment, the six patients' x-rays are displayed on a large-screen television as Dr. Doorly discusses possible causes and treatment options. By the time the session is over, each patient leaves having all of his or her questions answered – plus a few they might never have thought to ask. Building on its success, NSMC has begun offering shared medical appointments for primary care and diabetes patients as well.

Reaching out to the community.

Patient portals: Gateway to better coordination of care.

Partners patients are continuing to flock to Patient Gateway, an online portal which helps patients better and more efficiently interact with their caregivers. In addition to the more traditional means of communication – face-to-face visits and phone calls – patients can go online to book appointments, get lab results, access their online medical records, and ask questions. By using Patient Gateway to address routine matters of patient care, caregivers can focus instead on more complex issues.

The days of playing “phone tag” with busy clinicians may soon be over as Partners is committed to bringing this efficient communications tool to an increasing number of physician practices. At the end of 2010, 25 percent of Partners network physicians were offering Patient Gateway, and by the end of 2011 it was 60 percent, with more coming online all the time.



Text messaging for pregnant women spreads to Jamaica Plain.

A pilot program at Lynn Community Health Center that uses text messaging to encourage pregnant women to receive the recommended level of prenatal care is now being offered to patients at BWH’s Brookside Community Health Center in Jamaica Plain. The program will run for one year and is open to all pregnant patients at the health center who are followed by a BWH midwife – at least 100 patients. In Lynn, the messages were found to give the moms-to-be a feeling of being closely connected to their care team.



Kraft tackles shortage of community caregivers.

The Kraft Center for Leadership and Training in Community Health, established by a gift from the Kraft family to Partners, is responding to the increasing demand for community-based care by addressing the challenging shortage of caregivers in communities of need.

The \$20 million gift will support recruitment, retention, and public health skills enhancement of doctors and nurses to community health centers and similar care delivery settings, enabling these caregivers to make career-long commitments to improving the overall health of our communities.

At the MGH-Chelsea Health Center, social worker Tania Soares (left) tends to refugee families.

The healing power of a job.

The Partners in Career and Workforce Development program is a rigorous six-week job training and internship program that enables Boston-area residents to take up careers in health care. “Partners has opened doors that some of us never even knew existed, and it has started a new chapter in each and every one of our life stories,” said Jessica Devance, a job-training graduate and class speaker, as she shared her thoughts with her classmates at graduation. Since it began in 2003, the program has graduated 355 young people and 85 percent have found full-time employment within our hospital network.



Spaulding chosen to heal wounds from war in Libya.

Twenty-two wounded Libyan fighters were treated at Spaulding Rehabilitation Hospital North Shore. Spaulding, which specializes in long-term care and rehabilitation, was selected by the U.S. State Department for its ability to deal with a variety of serious injuries, including trauma to the brain. The soldiers, ages 16 to 40, were suffering from multiple traumas, gunshot wounds, and nerve damage sustained while fighting against the Gaddafi dictatorship. Surgical procedures were performed at North Shore Medical Center’s Salem Hospital as well as at BWH and MGH, particularly for hand and arm injuries.

Patient navigators help patients keep appointments, saving lives and money.

Patient navigators help our patients in a variety of ways. For example, programs introduced by BWH and MGH encourage patients to keep appointments and prepare for colonoscopies. Over a nine-month period, 400 MGH-Chelsea patients who were assisted by a navigator were more than twice as likely to have colonoscopies as scheduled. Colonoscopies save lives by detecting and removing precancerous polyps throughout the colon before they can become malignant.

Since 2005, the Partners Primary Care Access Program has connected more than 9,000 patients who entered our hospitals through the ER and other departments to community-based primary care. With help from bilingual access coordinators, Partners is working to reduce use of costly hospital emergency departments.



Tradition of excellence.

Giving Adele her voice back.

MGH surgeon Steven Zeitels, MD, was thanked from the stage by Adele Atkins when she accepted the first of her six Grammy Awards for 2011. That evening marked the first time Adele had sung publicly since successful surgery at MGH. Dr Zeitels is Director of the MGH Voice Center, which provides thousands of patients annually with the same state-of-the-art care that brings famous voices like Adele, Steven Tyler, and Julie Andrews to MGH.



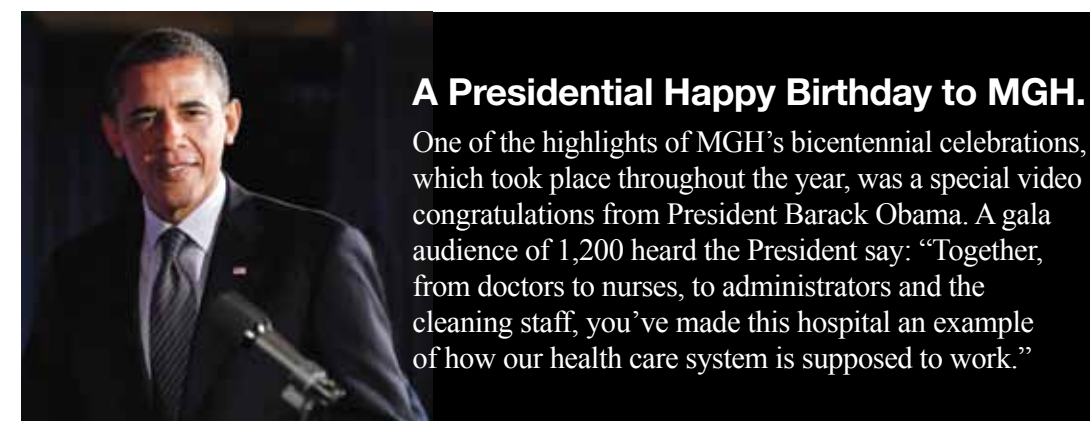
Two Partners hospitals ranked in top ten in nation by USNews & World Report.

Our two founding hospitals were again ranked among the top ten hospitals in the nation on the annual “honor roll” of America’s hospitals compiled by *USNews & World Report*. Both hospitals made significant leaps on the list, with MGH rising to the number two spot and BWH rising to number eight. McLean Hospital ranked third nationally in psychiatric care and remains the highest freestanding psychiatric hospital honored, while Spaulding Rehabilitation was rated fifth among all rehabilitation hospitals in the country.



BWH earns nursing honor.

In recognition of the exceptional care that its nurses provide to patients and families, the BWH Cardiac Surgery ICU was honored with the American Association of Critical Care Nurses’ Beacon Award for Excellence – Gold status. For patients and their families, the Beacon Award signifies excellence in patient care through improved outcomes and greater overall satisfaction.



A Presidential Happy Birthday to MGH.

One of the highlights of MGH’s bicentennial celebrations, which took place throughout the year, was a special video congratulations from President Barack Obama. A gala audience of 1,200 heard the President say: “Together, from doctors to nurses, to administrators and the cleaning staff, you’ve made this hospital an example of how our health care system is supposed to work.”

Partners green saves green.

Since the Partners Sustainability Initiative began in 2008, energy use has dropped 9 percent across the system, amounting to \$6 million in cost savings. And since operating in an environmentally responsible manner opens up new opportunities in delivering safe and cost-efficient care, Partners aims to reduce energy consumption by more than 25 percent by 2014.

The last four major buildings built by Partners, including the Lunder Building at MGH (right) and the Shapiro Cardiovascular Center at BWH (left), are LEED certified or on track to be, with energy consumption as much as 40 percent below energy code standards. “Green Teams” across Partners are working to reduce medical waste and increase recycling, with a positive result for the environment as well as a potential 50 percent drop in disposal costs.



18 Nobel laureates have trained or practiced at Partners-affiliated institutions.

- 2011: Ralph M. Steinman, MGH
- 2009: Jack Szostak, MGH
- 1998: Ferid Murad, MGH
- 1990: Joseph E. Murray, BWH
- 1990: E. Donnall Thomas, BWH
- 1989: J. Michael Bishop, MGH
- 1985: Herbert L. Abrams, BWH
- 1985: Michael S. Brown, MGH
- 1985: Eric Chivian, MGH
- 1985: Joseph L. Goldstein, MGH
- 1985: Bernard Lown, BWH
- 1985: James Muller, MGH
- 1980: Baruj Benacerraf, DFCI
- 1972: Gerald M. Edelman, MGH
- 1966: Charles B. Huggins, MGH
- 1953: Fritz Lipmann, MGH
- 1934: George R. Minot, MGH
- 1934: William P. Murphy, MGH



Partners HealthCare System, Inc. & Affiliates

FY2011 Financial Overview

Excerpts from financial statements. Complete financial statements are available upon request.

Partners HealthCare is guided by its mission of:

- providing the highest quality patient care,
- performing cutting edge research,
- training the physicians of tomorrow, and
- supporting the communities in which we operate.

To deliver on this mission, we need to meet our targeted operating margin and maintain a strong balance sheet.

We are pleased to report that in 2011 we exceeded our margin target and strengthened our balance sheet. In addition, in the fall of 2011, Partners detailed plans to save \$300 million in projected costs over the next three years by redesigning the way care is delivered to make it better and more efficient. We committed to reduce overhead costs by more effectively managing resources and removing redundant programs and administrative responsibilities. More simply stated – we committed to a cost structure that mirrors the change in general inflation. And we have already reduced the rate of expense growth in 2011.

In an effort to pass these savings onto consumers, Partners also announced agreements with Blue Cross Blue Shield and Tufts Health Plan to reduce the growth in health care spending by \$345 million over the next four years. We continue to work with other insurers in the hopes that more savings for consumers can be realized.

Overview

For fiscal 2011, Partners reported income from operations of \$233 million (2.7% margin), up from \$195 million (2.4% margin) the previous year. Changes in reserve estimates, which can fluctuate year to year, increased income from operations by \$7 million and \$21 million in 2011 and 2010, respectively.

Excess of revenues over expenses was \$264 million in 2011 compared to \$268 million in 2010. Increases in income from operations (\$38 million) and academic and research gift activity (\$30 million) largely offset decreases in nonoperating investment activity (\$76 million, driven by a decrease in accumulated appreciation in the value of investments held). Academic and research gifts (a component of “Gifts and other, net of expenses”) largely consist of donor contributions (and the related investment activity) designated to support the clinical, teaching or research efforts of a physician or department as directed by the donor.

Total assets increased by \$515 million (5%) to \$11.5 billion at September 30, 2011. Total net assets (assets minus liabilities) decreased by \$73 million (1%) to \$5.5 billion. Net assets declined as the excess of revenues over expenses (\$264 million) was more than offset by a decrease in accumulated appreciation in the value of investments held and a decrease in the funded status of our defined benefit pension and postretirement plans. The change in funded status was driven by modest returns on plan assets coupled with an increase in the plan obligations, due to a decrease in the discount rate used to measure the obligations. As the discount rate decreases, the discounted cash flow of future benefits promised by the plans increases, resulting in higher obligations.

Revenue

Operating revenues increased by \$473 million (6%) to \$8.5 billion from \$8.0 billion in 2010. Net patient service revenue (NPSR) increased by \$277 million to \$6.3 billion, representing an increase of 5% from the prior year. NPSR was favorably impacted by continued increases in the complexity and severity of inpatient cases, modest growth in system-wide discharges (0.3%), and rate increases, partially offset by declines in certain outpatient activity. Academic and research revenue grew \$161 million (12%) to \$1.5 billion for fiscal 2011, reflecting federal stimulus money for research. Other revenue, which includes management services and other non-patient revenue sources, grew \$35 million (6%) to \$607 million for 2011.

Net Uncompensated Care Costs

For fiscal 2011, Partners’ hospitals, community health centers, and physicians experienced \$913 million in Medicare, Medicaid, and Health Safety Net (HSN) shortfalls due to government reimbursements that failed to pay the full cost of providing care to Medicare, low-income, and uninsured patients. Government payers represent approximately 40% of our net patient service revenue. The shortfall experienced by Partners’ institutions and providers in 2010 was \$837 million.

Expenses

Operating expenses for 2011 increased by \$435 million (6%) to \$8.2 billion. Labor costs increased by \$202 million (5%) to \$4.6 billion, reflecting increases in health (7%) and pension costs (11%) as well as wage increases. Supplies and other expenses grew by \$56 million (3%) to \$2.0 billion in 2011, reflecting lower space related costs, offset by cost increases associated with improved clinical technologies, pharmaceutical supplies and certain purchased services. Direct research expenses grew \$129 million (14%) to \$1.1 billion for fiscal 2011. Depreciation and amortization expense of \$397 million increased by \$40 million (11%) due to the opening of new facilities in 2011, most notably the 530,000 square foot Lunder Building on the MGH campus.

Research

Total research revenue of \$1.4 billion increased by \$160 million (13%) over 2010. Direct research revenue of \$1.1 billion increased by \$129 million (14%) over 2010 while indirect research revenue of \$343 million (which represents recovery of overhead expenses) increased by \$31 million (10%) over the prior year. The effective overhead recovery rate decreased (from 32.9% to 31.9%), reflecting a shift toward sponsors that provide either lower or no recovery of overhead. As of September 30, 2011, committed future research funding approximated \$2.9 billion.

Philanthropy

Partners’ hospitals and programs raised \$375 million in new gifts and pledges in 2011, more than \$120 million over the previous year. From a cash standpoint, the System collected \$303 million in cash gifts and pledge payments. About \$54 million of the cash – 18% – was for capital and unrestricted support, with the balance for clinical and research program initiatives. In terms of fundraising costs, our three-year average for cost-per-dollar raised is 13 cents, which is in line with our peers.

As in past years, principal gifts contributed significantly to Partners’ philanthropic performance: five gifts accounted for \$129 million of total giving. Among the more noteworthy gifts: Robert and Myra Kraft and their family gave \$20 million to the Partners system to improve access to – and the quality of – care for the neediest people in Massachusetts, New England, and throughout the United States. MGH Chair Cathy Minehan and her husband E. Gerald Corrigan donated \$20 million to the MGH Heart Center. Honorary Co-chairs of MGH’s campaign Phillip and Susan Ragon pledged an additional \$26.3 million to MGH’s Ragon Institute to accelerate the global effort to develop an HIV/AIDS vaccine. MGH trustee Henri Termeer and his wife Belinda gave \$10 million to support targeted cancer therapies. Howard and Michele Kessler made a \$6 million gift to support community mental health at MGH and global health at BWH.

Seven-figure gifts at the other affiliates also enhanced fundraising totals, including a \$3.3 million anonymous gift to McLean Hospital, and \$1 million gifts to North Shore Medical Center, Newton-Wellesley Hospital, and the Schwartz Center for Compassionate Healthcare.

Liquidity And Capital Resources

Partners’ sources of liquidity are cash flow from operations, cash and equivalents, investments and a credit facility. Cash flow from operations for 2011 was \$593 million compared with \$572 million generated in 2010. Unrestricted cash and investments at September 30, 2011 totaled \$4.8 billion. For added liquidity, Partners has available a \$150 million credit agreement with several banks.

In 2011, investing activities used \$1.0 billion, with \$590 million spent on capital expenditures, a decrease of \$17 million (3%) from the prior year. Capital purchases in 2011 included spending on new facilities, renovations to existing buildings and strategic information technology projects. In addition, net purchases of investments amounted to \$441 million in 2011.

For 2011, net cash provided by financing activities was \$247 million. In January 2011, Partners HealthCare System Series K Revenue Bonds were issued. The net proceeds, totaling \$432 million, were used to finance certain capital projects (\$201 million) and to refund previously issued debt (\$231 million). For 2010, net cash provided by financing activities was \$279 million largely due to the issuance of Series J Revenue bonds. Total debt outstanding amounted to \$2.7 billion as of September 30, 2011.

Partners believes it has the necessary financial resources, operating cash flow and borrowing capacity to fund working capital needs, capital expenditures and other business requirements for the near term.

Other Matters

Ground breaking for the new Spaulding Rehabilitation Hospital was held in October 2010 at Yard’s End, in the Charlestown Navy Yard. The total project cost for the 132-bed facility is estimated at \$225 million with occupancy scheduled for early calendar year 2013.

BWH has embarked on two significant construction projects – the Brigham Building for the Future or BBF and the Brigham Patient Parking Project or BPP. The BBF will expand research and clinical space on the BWH campus, with a focus on the Neuroscience and Musculoskeletal programs, and increase flexibility for future campus redevelopment while allowing for lease consolidation. BPP locates a 400 space parking facility under BWH’s 15 Francis Street entrance. BPP eliminates a parking shortage on campus and also satisfies certain commitments to the community and regulators. BBF is expected to cost approximately \$500 million with occupancy scheduled for 2017. BPP is estimated at \$64 million with the garage opening scheduled for 2013.

Partners is in the process of replacing its many patient administrative systems (scheduling, registration and billing) with a system-wide, web-enabled, work-flow based system. The multi-year program – referred to as Compass – began in July 2007. In February 2010, Newton-Wellesley Hospital became our first entity to “go live” on the new system. By the time of its targeted completion in 2015, Compass will set a new standard in healthcare by making our scheduling, registration and billing easier for patients and staff to navigate; providing the ability to capture, process and collect revenue efficiently; and instituting common registration processes. The total project capital cost is estimated at \$237 million.

In October 2011 Partners signed an agreement to acquire Neighborhood Health Plan, Inc. (NHP). NHP is a not-for-profit Managed Care Organization with the bulk of its members receiving their coverage through state programs, especially Medicaid and Commonwealth Care. We believe the affiliation with NHP will result in a stronger patient experience and address growing needs for care coordination and management, health equity, and the ability to help curb health care costs. The planned acquisition is currently under regulatory review and subject to the approval of the Commissioner of the Commonwealth’s Division of Insurance.

Consolidated Statements of Operations

Excerpts from financial statements (in thousands of dollars) for the fiscal years ended September 30, 2011 and 2010

	2011	2010
Operating revenue:		
Net patient service revenue, net of provision for bad debts	\$6,342,273	\$6,065,311
Academic and research revenue	1,531,501	1,370,372
Other revenue	607,338	572,488
Total operating revenue	8,481,112	8,008,171
Operating expenses:		
Compensation and benefits	4,629,275	4,427,300
Supplies and other expenses	1,964,080	1,907,881
Direct academic and research expenses	1,175,548	1,045,789
Depreciation and amortization	397,199	356,844
Interest	82,193	75,677
Total operating expenses	8,248,295	7,813,491
Income from operations	232,817	194,680
Nonoperating gains (expenses):		
Income from investments	33,512	109,941
Change in fair value of nonhedging interest rate swaps	(35,868)	(40,690)
Gifts and other, net of expenses	33,327	4,554
Total nonoperating gains, net	30,971	73,805
Excess of revenues over expenses	263,788	268,485
Other changes in net assets:		
Change in net unrealized appreciation on marketable investments	(115,943)	58,545
Change in fair value of hedging interest rate swaps	(67,932)	(45,820)
Funds utilized for property and equipment and other	104,911	80,832
Net assets acquired through merger	—	193,818
Change in funded status of defined benefit plans	(244,139)	(10,460)
(Decrease) increase in unrestricted net assets	\$ (59,315)	\$ 545,400

Complete financial statements available upon request.

Consolidated Balance Sheets

Excerpts from financial statements (in thousands of dollars) as of September 30, 2011 and 2010

	2011	2010
Current assets:		
Cash and equivalents	\$ 439,537	\$ 626,919
Investments	1,256,257	1,050,749
Collateral held under securities lending arrangements	157,872	129,183
Current portion of investments limited as to use	1,309,628	1,084,877
Patient accounts receivable	729,076	698,380
Other current assets	437,038	424,604
Total current assets	4,329,408	4,014,712
Investments limited as to use, less current portion	2,077,403	2,106,023
Long-term investments	833,815	838,913
Property and equipment	3,944,757	3,749,234
Other assets	319,760	281,453
Total assets	\$11,505,143	\$10,990,335
Current liabilities:		
Current portion of long-term obligations	\$ 294,829	\$ 489,913
Accounts payable and accrued expenses	1,266,142	1,281,839
Collateral due under securities lending arrangements	157,872	129,183
Current portion of accrual for settlements with third-party payers	93,990	34,144
Total current liabilities	1,812,833	1,935,079
Long-term obligations, less current portion	2,338,788	1,977,033
Accrual for settlements with third-party payers, less current portion	6,382	15,453
Interest rate swaps liability	375,202	271,402
Other long-term liabilities	1,518,351	1,264,860
Total liabilities	6,051,556	5,463,827
Net assets:		
Unrestricted	4,331,876	4,391,191
Temporarily restricted	783,798	824,426
Permanently restricted	337,913	310,891
Total net assets	5,453,587	5,526,508
Total liabilities and net assets	\$11,505,143	\$10,990,335

Complete financial statements available upon request.

Consolidated Statements of Changes in Net Assets

Excerpts from financial statements (in thousands of dollars) for the fiscal years ended September 30, 2011 and 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at October 1, 2009	\$3,845,791	\$829,928	\$298,894	\$4,974,613
Increases (decreases):				
Income from operations	194,680	—	—	194,680
Income from investments	109,941	4,800	279	115,020
Gifts and other	4,554	23,652	14,903	43,109
Change in net unrealized appreciation on marketable investments	58,545	6,372	364	65,281
Change in fair value of interest rate swaps	(86,510)	—	—	(86,510)
Funds utilized for property and equipment and other	80,832	(40,326)	(3,549)	36,957
Net assets acquired through merger	193,818	—	—	193,818
Change in funded status of defined benefit plans	(10,460)	—	—	(10,460)
Change in net assets	545,400	(5,502)	11,997	551,895
Net assets at September 30, 2010	4,391,191	824,426	310,891	5,526,508
Increases (decreases):				
Income from operations	232,817	—	—	232,817
Income (loss) from investments	33,512	(6,490)	449	27,471
Gifts and other	33,327	65,326	24,041	122,694
Change in net unrealized appreciation on marketable investments	(115,943)	(20,688)	851	(135,780)
Change in fair value of interest rate swaps	(103,800)	—	—	(103,800)
Funds utilized for property and equipment and other	104,911	(78,776)	1,681	27,816
Change in funded status of defined benefit plans	(244,139)	—	—	(244,139)
Change in net assets	(59,315)	(40,628)	27,022	(72,921)
Net assets at September 30, 2011	\$4,331,876	\$783,798	\$337,913	\$5,453,587

Complete financial statements available upon request.

Consolidated Statements of Cash Flows

Excerpts from financial statements (in thousands of dollars) for the fiscal years ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ (72,921)	\$ 551,895
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities:</i>		
Net assets acquired through merger	—	(193,818)
Change in funded status of defined benefit plans	244,139	10,460
Change in fair value of interest rate swaps	103,800	86,510
Depreciation and amortization	397,199	356,844
Provision for bad debts	101,118	117,140
Net realized and change in unrealized appreciation on investments	44,668	(213,105)
Restricted contributions and investment income	(85,670)	(73,471)
Other	4,240	4,605
<i>Increase (decrease) in cash resulting from a change in:</i>		
Patient accounts receivable	(131,814)	(103,282)
Other assets	(62,019)	(14,285)
Accounts payable and accrued expenses	(6,345)	66,399
Settlements with third-party payers	56,868	(24,154)
Net cash provided by operating activities	593,263	571,738
Cash flows from investing activities:		
Purchase of property and equipment, net of sales	(586,888)	(607,039)
Net purchases of investments	(441,209)	(178,318)
Net cash used for investing activities	(1,028,097)	(785,357)
Cash flows from financing activities:		
Payments on long-term obligations	(39,644)	(65,098)
Proceeds from long-term obligations	432,496	504,027
Decrease in auction rate securities holdings	—	20,000
Deposits into refunding trusts	(231,070)	(253,094)
Restricted contributions and investment income	85,670	73,471
Net cash provided by financing activities	247,452	279,306
Net (decrease) increase in cash and equivalents	(187,382)	65,687
Cash and equivalents at beginning of year	626,919	561,232
Cash and equivalents at end of year	\$ 439,537	\$ 626,919

Complete financial statements available upon request.

Partners HealthCare is an integrated health system founded in 1994 by Brigham and Women's Hospital and Massachusetts General Hospital. In addition to its two academic medical centers, the Partners system also includes community and specialty hospitals, community health centers, a physician network, home health and long-term care services, and other health-related entities. Partners is one of the nation's leading biomedical research organizations and a principal teaching affiliate of Harvard Medical School. Partners HealthCare is a non-profit organization.

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Southern Jamaica Plain Health Center
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Charlestown HealthCare Center
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Revere HealthCare Center
Independently Licensed Health Center:
(relationship with MGH)*
North End Community Health Center
In addition, Partners is affiliated with 15 community health centers which are operated independently or under license from other hospitals.
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Spaulding Hospital Cambridge
Spaulding Hospital North Shore
Spaulding Rehabilitation Hospital Cape Cod
Spaulding Nursing & Therapy Center North End
Spaulding Nursing & Therapy Center West Roxbury
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*The NEHC has a unique governance structure and affiliation arrangement with MGH (most recently revised in 2007) reflecting the health center's historic independence.

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Joel H. Schwartz, M.D. Chief of Hematology/Oncology North Shore Medical Center	Stephen Pochebit, M.D. Chief of Pathology Faulkner Hospital	Mark R. Belsky, M.D. Acting Chair, Department of Orthopaedics Newton-Wellesley Hospital	Don L. Goldenberg, M.D. Chief of Rheumatology Newton-Wellesley Hospital	Steven Miller, M.D. Chair of Radiology Newton-Wellesley Hospital	Henry M. Yager, M.D. Chief of Nephrology Newton-Wellesley Hospital
M. Christian Semine, M.D. Chair of Radiology North Shore Medical Center	Stephen Ledbetter, M.D. Chief of Radiology Faulkner Hospital (from June, 2011)	Joanne Borg-Stein, M.D. Chief of Physical Medicine & Rehabilitation Newton-Wellesley Hospital	Anthony J. Guidi, M.D. Chair of Pathology Newton-Wellesley Hospital	Frederick Millham, M.D. Chair of Surgery Newton-Wellesley Hospital	Specialty Hospitals Scott L. Rauch, M.D. Psychiatrist in Chief McLean Hospital
	Martin A. Samuels, M.D. Chief of Neurology Brigham and Women's/ Faulkner Hospitals		Eric Hazen, M.D. Chief of Child and Adolescent Psychiatry Newton-Wellesley Hospital (from February, 2011)	Timothy O'Connor, M.D. Chief of Hematology/Oncology Newton-Wellesley Hospital	Richard L. Zaniewski, D.O. Chief of Rehabilitation Medicine Spaulding Hospital North Shore

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To dedicate ourselves to the delivery of superior care that is patient- and family- centered, accessible, and equitable.

To provide a coordinated, cost-efficient, and transparent care model that will benefit patients across the continuum from prevention to long-term.

To touch the communities we serve, local or global, with sustainable improvements in the care we provide, with a keen focus on underserved populations.

To lead in research that fosters collaboration, bringing discovery to the patient's bedside, and sharing those successes with the world so future generations may benefit.

To invest in education and training to nurture the next generation of leaders who can carry forward the lessons learned.

To promote the development of our workforce by creating opportunities for achievement and advancement.

To seek ways to deliver the highest quality health care to all.



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